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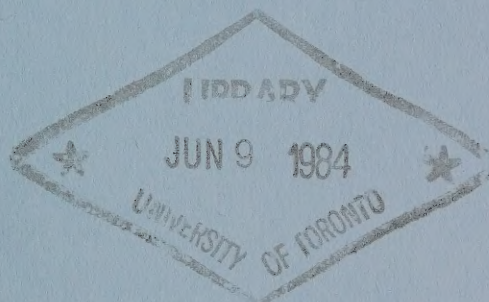


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# NATIONAL ENERGY BOARD REASONS FOR DECISION

In the Matter of the Application Under  
Part IV of the National Energy Board Act  
(Toll Application)

of



**Trans Québec & Maritimes Pipeline Inc.**

**March 1984**





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REASONS FOR DECISION**

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MARCH 1984

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Cat. No. NE22-1/1984-5E

ISBN 0-662-13235-1

**This report is published separately  
in both official languages.**

Copies are available on request from:

Secretariat  
National Energy Board  
473 Albert Street  
Ottawa, Canada  
K1A 0E5  
(613) 992-3972

**Ce rapport est publié séparément  
dans les deux langues officielles.**

Exemplaires disponibles auprès du:

Secrétariat  
Office national de l'énergie  
473, rue Albert  
Ottawa (Canada)  
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(i)

### **Recital and Appearances**

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder, and  
IN THE MATTER OF an Application by Trans Québec & Maritimes Pipeline Inc. (hereinafter called  
TQM) for certain orders respecting tolls under Sections 50, 51 and 52 of the National Energy  
Board Act, filed with the Board under File No. 1562-T28-3.

HEARD at Ottawa, Ontario on:

January 11, 12, 13, 16, 17, 18, 19, 20, 30, 31,  
and February 1, 2, 3, 6, 7, 8, 9, 10, 14, 15, 16, 17, 1984.

BEFORE:

Mr. J.R. Hardie	Presiding Member
Mr. J. Farmer	Member
Mr. J.L. Trudel	Member

APPEARANCES:

Mr. H. Soloway, Q.C.	Trans Québec & Maritimes Pipeline Inc.
Mr. L. Leclerc	
Mr. W.J. Houston	
Mr. C.K. Yates	Canadian Petroleum Association Independent Petroleum Association of Canada
Mr. J.H. Farrell	The Consumers' Gas Company Ltd.
Mr. Y. Brisson	Gaz Inter-Cité Québec Inc.
Ms. L. Martin, Q.C.	Gaz Métropolitain, inc.
Mr. P.F. Scully	Northern and Central Gas Corporation
Mr. J. Hopwood, Q.C.	NOVA, AN ALBERTA CORPORATION
Mr. W. Gallagher	Petro-Canada
Mr. J.M. Murray	TransCanada PipeLines Limited
Mr. C. Black	
Mr. P. McMillan	Union Gas Limited
Mr. A.S. Hollingworth	Alberta Petroleum Marketing Commission
Ms. E. Smith	Minister of Energy for Ontario
Ms. M. Rounding	
Mr. J. Giroux	Procureur général du Québec
Mrs. L. Meagher	Board Counsel
Mr. P. Barsalou	

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**Abbreviations and Definitions**

<b>AFUDC</b>	Allowance for Funds Used During Construction
<b>AOS</b>	Authorized Overrun Service
<b>APMC</b>	Alberta Petroleum Marketing Commission
<b>Applicant Company TQM</b>	Trans Québec & Maritimes Pipeline Inc.
<b>Board NEB</b>	National Energy Board
<b>CCA</b>	Capital Cost Allowance
<b>CPA</b>	Canadian Petroleum Association
<b>Consumers'</b>	The Consumers' Gas Company Ltd.
<b>DCF</b>	Discounted Cash Flow
<b>GC-64</b>	Certificate of Public Convenience and Necessity No. GC-64 issued 21 March 1980 authorizing facilities crossing Lake of Two Mountains
<b>GC-65</b>	Certificate of Public Convenience and Necessity No. GC-65 issued 16 May 1980 authorizing facilities from Boisbriand to Quebec City
<b>GC-68</b>	Certificate of Public Convenience and Necessity No. GC-68 issued 10 December 1981 authorizing facilities east of Quebec City to Halifax
<b>GICQ</b>	Gas Inter-Cité Québec Inc.
<b>GMI</b>	Gaz Métropolitain, inc.
<b>GPIS</b>	Gas Plant in Service
<b>GPUC</b>	Gas Plant Under Construction
<b>IPAC</b>	Independent Petroleum Association of Canada
<b>IRR</b>	Investors' Required Return
<b>NOVA</b>	NOVA, AN ALBERTA CORPORATION
<b>Northern and Central</b>	Northern and Central Gas Corporation
<b>O&amp;M</b>	Operating and Maintenance
<b>SCADA</b>	Supervisory Control and Data Acquisition
<b>TSE</b>	Toronto Stock Exchange
<b>Test Year</b>	1 January 1984 to 31 December 1984
<b>TransCanada TCPL</b>	TransCanada PipeLines Limited



<b>Universal</b>	Universal Pipe Line Enterprises Ltd.
<b>June 1983 Reasons for Decision</b>	"National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the National Energy Board Act of Trans Québec & Maritimes Pipeline Inc. - June 1983"
<b>Supplemental Application</b>	Application filed by Trans Québec & Maritimes Pipeline Inc. on 28 December 1983
<b>Update</b>	Additional data filed by TQM on 14 February 1984 entitled "Updated Supplemental Application"
<b>1983 Hearing</b>	Hearing held pursuant to Board Order AO-3-RH-4-82
<b>1984 Hearing</b>	Hearing held pursuant to Board Order RH-3-84, as amended

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# Chapter 1

## The Application

### 1.1. Background

The Applicant, Trans Québec & Maritimes Pipeline Inc. (TQM), as mandatory for a partnership consisting of TransCanada PipeLines Limited (TCPL) and NOVA, AN ALBERTA CORPORATION (NOVA) constructed and operates a pipeline for transmission of natural gas. This pipeline begins at the point of inter-connection with the TCPL system near St-Lazare, Quebec and ends at a point just east of Quebec City. At the time of the hearing held to consider TQM's first toll application (the 1983 hearing) the Applicant was still in a construction phase. The construction of the main line to Quebec City was completed in August 1983 and TQM is essentially now in an operating phase.

TransCanada is currently the only user of the TQM facility. Natural gas transmitted by TQM for TransCanada is sold by TransCanada to TQM at the point of inter-connection between TQM and the distributors' facilities. TQM immediately sells the gas to the distributors at the same point.

Being the only shipper on the TQM system, TransCanada is charged the entire toll determined by the Board to be just and reasonable in respect of transmission services rendered by TQM. Charges to TransCanada by TQM are, upon approval by the Board, included in TransCanada's cost of service as a component of "Transmission by Others". Thus TQM's toll becomes an integral part of the tolls paid by TransCanada's customers.

### 1.2 Application

By an Application dated 26 August 1983, as supplemented by a Supplemental Application dated 28 December 1983<sup>1</sup> and updated on 14 February 1984, Trans Québec & Maritimes Pipeline Inc. applied to the Board, under Part IV of the National Energy Board Act, for orders effective 1 January 1984, fixing just and reasonable tolls that it may charge for or in respect of the transmission of natural gas within

Canada through its pipeline facilities and disallowing any existing tolls that are inconsistent with the tolls so fixed.

By Order No. RH-4-83, as amended by Orders No. AO-1-RH-4-83 and AO-2-RH-4-83, the Board set the Application down for public hearing. The hearing (the 1984 hearing) commenced in Ottawa on 11 January 1984 and continued for 22 days of sitting during the months of January and February 1984.

The tolls proposed in the Application, as supplemented and updated, are in conformity with the fixed toll method of regulation directed by the Board in Order TG-2-83, issued with its Reasons for Decision consequent on the hearing of TQM's first toll application. The proposed tolls are based on the Applicant's cost of service employing as the base period the twelve months ended 30 June 1983 and a calendar 1984 test year. In developing its cost of service or revenue requirements for the period beginning 1 January 1984, the Applicant stated it relied on a zero based budgeting approach.

In August 1983, TQM applied to the Board for a review of certain of the decisions made by the Board in its June 1983 Reasons for Decision. This Application for Review was dismissed on 29 August 1983. TQM has since filed two applications with the Federal Court, the first pursuant to section 28 of the Federal Court Act, requesting that the 29 August 1983 Decision be reviewed and set aside; and the second pursuant to section 18 of the NEB Act requesting leave to appeal the June 1983 Decision and the 29 August 1983 Decision. In TQM's Supplemental Application, certain items that were the subject matter of the Application for Review are treated consistently with the Application for Review, and are therefore not consistent with the Board's June 1983 Decision. These items are identified as follows:

1. Method of averaging of the rate base,
2. Allowance for Funds Used During Construction (AFUDC) on Sponsors' Development Costs prior to 16 May 1980,
3. Reclassified development costs in NEB Account 465 Mains,

<sup>1</sup> TQM indicated that where information in the Supplemental Application is different from information provided in the original Application, the Applicant is requesting tolls based on the Supplemental Application.

4. Provision in the Tariff for reimbursement of disallowed charges,
5. Capital tax calculation, and
6. Petro-Canada costs.

At the Board's request, TQM supplied information which enabled the Board to consider the Application and Supplemental Application as if they had been prepared on a basis wholly consistent with the June 1983 Reasons for Decision.

Upon application by TQM, dated 27 October 1983, the Board issued Interim Order TGI-4-83 which provided that, effective 1 January 1984, the tolls established by and the tariff filed in accordance with Order No. TG-2-83 shall be an interim toll and an interim tariff. In its Supplemental Application, TQM requested an order pursuant to section 52.2 of the NEB Act authorizing TQM to recover the difference between the tolls charged under TGI-4-83 and the tolls determined by the Board to be just and reasonable following the 1984 hearing.

In its Application and Supplemental Application TQM requested, in addition to such further and other orders as may be necessary, requisite or advisable, that the Board issue orders approving the fixed transportation toll submitted, to be effective 1 January 1984. The Applicant also requested an order allowing it to recover in its tolls the overrun in excess of the Operating and Maintenance (O&M) Budget approved by the Board for the period 1 April 1983 to 30 June 1983, proposing that TCPL be invoiced for this overrun including carrying charges to 1 January 1984 or until the date of recovery as approved by the Board. In addition, the Applicant applied for orders approving

the establishment of deferral accounts to record variances in interest costs in relation to its short-term debt, the amount of net foreign exchange losses or gains, regulatory expenses, the transfer tax assessment relating to the transfer of assets from TCPL to TQM authorized by Board Order MO-6-81, and the expenses incurred in relation to the Application for Review made to the Board with respect to the June 1983 Reasons for Decision.

At the outset of the hearing TQM's counsel indicated that the Applicant, as a result of developments that could occur during the hearing, might have to update certain schedules or other information contained in its application. He asked the Board for an order permitting the Applicant to withhold filing these revisions until just shortly before the conclusion of the hearing. The Board granted this request, with the caveat that the only new data that would appear in the revisions was information that had been discussed during the hearing. The Board also requested that a reconciliation indicating what changes had been made to the original filings and the reasons for those changes should accompany the Update. The Update was filed on 14 February 1984 as Exhibit No. B-119 and certain explanations were filed with the Board and served on all interested parties after the termination of the hearing under cover of a letter dated 6 March 1984.

Details of the tolls proposed by the Applicant are provided in its Application, Supplemental Application and Update to the Supplemental Application; in the exhibits filed at the hearing held pursuant to RH-4-83, as amended; in the evidence adduced by TQM's witnesses at that hearing; and, in the answers to outstanding undertakings provided under cover of the letter dated 6 March 1984.



## Chapter 2

### Toll Design and Tariff Matters

#### 2.1 Toll Design

In accordance with the June 1983 Reasons for Decision, the Board considers the most appropriate fixed toll for TQM's cost of service to be a monthly dollar amount equivalent to one-twelfth of the total cost of service approved by the Board for the twelve-month period commencing 1 January 1984.

The table below shows a summary of the allowable cost of service, details of which may be found elsewhere in this report.

<b>Approved Cost of Service</b>		
<b>Test Period 1 January 1984 to 31 December 1984</b>		
	<b>Authorized By NEB \$(000)</b>	<b>Reference</b>
Operating and Maintenance Expenses	9,388	Section 5.2
Depreciation and Amortization	16,254	Section 5.4
Taxes Other Than Income Taxes	2,246	Section 5.6
Income Taxes	—	Section 5.5
Return on Construction Warehouse Inventory and Standby Plant at 6.33%	68	Section 3.4.6 and .7
Return on Rate Base at 12.66%	<b>54,794</b>	Chapters 3 and 4
<b>Total Cost of Service</b>	<b>82,750</b>	

Accordingly, the approved monthly toll to be charged by TQM effective 1 January 1984 is \$6.896 million.

#### 2.2 Tariff Matters

The Applicant proposed three revisions to its tariff:

- i) A revision to rate schedules T-1 and OT-1 to reflect the applied-for cost of service, resulting in an increase in the monthly toll from \$6.297 million to \$7.660 million;
- ii) a revision to line 10 of Section 14.1 on sheet no. 430 of the tariff to correct a typographical error; and,
- iii) the addition of Section 10, reimbursement of disallowed charges.

The Board accepts the proposed revision to line 10 of section 14.1 of the General Terms and Conditions Section of the tariff. Accordingly, TQM is instructed to file with the Board revisions to its tariff to reflect this decision and the other decisions outlined in these Reasons for Decision.

##### 2.2.1 Authorized Overrun Service

Under its Rate Schedule OT-1 Authorized Overrun Service (AOS), TQM proposes to charge a rate for overrun service based on its cost of service divided by the contracted Maximum Daily Receipt Quantities of the shipper multiplied by 30.416 days in a month.

During cross-examination of TQM's witnesses it was determined that no incremental costs would be incurred during the test year to provide AOS. Although TQM did not forecast any AOS because it did not anticipate any AOS deliveries in the test year, witnesses for the Applicant stated that in principle revenues derived from forecasted AOS during a test year would be deducted from the cost of service. However, any revenues from AOS above or below forecasted levels would be added to or subtracted from net income.

TQM stated that the tariff was designed for more than one shipper and if no charge was made for the service, discrimination could arise. According to TQM, discrimination between two shippers could happen if one shipper were to reduce his firm contract volume and use AOS instead, while the other shipper did not follow suit.

Since TQM does not anticipate any AOS during the test year and as the evidence did not indicate that there will be more than one shipper, it is the Board's view that it is premature to provide a toll at this time to cover the possibility of more than one shipper. TQM's total cost of service is recovered through the toll for firm transportation service and TQM incurs no incremental costs for AOS. Under these circumstances, the Board has determined that there should be no charge for AOS under TQM's Rate Schedule OT-1.

##### 2.2.2 Reimbursement for Disallowed Charges

As part of its Application, TQM submitted a proposed addition to its tariff entitled "Reimbursement for Disallowed Charges". TQM applied during the 1983 hear-

ing to have this paragraph included in its tariff but the Board did not consider that TQM provided sufficient justification for its inclusion. This issue was included in TQM's Request for Review, which the Board dismissed.

During cross-examination, a witness for the Applicant explained that the purpose of this tariff provision is to reimburse TransCanada for costs of transportation provided by TQM which the Board may disallow in TransCanada's own tolls. The Applicant submitted that this provision is required to be fair to the shipper in the unlikely event that the recovery of an amount paid by the shipper under Rate Schedule T-1 is denied in its tolls.

Gaz Inter-Cité Québec Inc. (GICQ), the Minister of Energy for Ontario and Northern and Central Gas Corporation (Northern & Central) did not believe that the provision should be approved for inclusion in the tariff, arguing that TQM had not adduced new evidence as to its necessity.

The Board considers that TQM has not presented any new evidence on this issue which justifies the inclusion in Rate Schedule T-1, Firm Service, of paragraph 10, "Reimbursement for Disallowed Charges". Accordingly, the Board does not approve the inclusion of this paragraph in TQM's gas transportation tariff.



## Chapter 3

### Rate Base

#### 3.1 Introduction

During the hearing, TQM presented evidence showing its projected rate base. For the reasons indicated hereafter, the Board has adjusted the test period rate base in Table 3.1

#### 3.2 Rate Base Items Treated Consistently With Application For Review

By an application filed on 11 August 1983, TQM sought review and revision of several items dealt with by the Board in Order TG-2-83 and the Reasons for Decision dated June 1983. On 29 August 1983, the Board dismissed TQM's request for review. TQM subsequently filed two applications with the Federal Court, the first pursuant to section 28 of the Federal Court Act, requesting that the 29 August 1983 decision be reviewed and set aside, and the second pursuant to section 18 of the NEB Act requesting leave to appeal the June 1983 Decision and the 29 August 1983 Decision. In its Supplemental Application and

Update, TQM treated the following rate base items consistently with its Request for Review and applications to the Federal Court:

- i) the Petro-Canada costs;
- ii) the AFUDC on sponsors' development costs prior to 16 May 1980; and,
- iii) the reclassified development costs in NEB Account 465 - Mains.

With respect to the Petro-Canada costs, a witness for the Applicant confirmed during cross-examination that the facts surrounding this issue had not changed since the last hearing. No new evidence was presented by the Applicant or any other party to the hearing, on either the AFUDC on sponsors' development costs prior to 16 May 1980 or on the reclassified development costs. Accordingly, the Board sees no reason to vary its previous decisions on any of these three matters.

**Table 3.1**  
**Average Rate Base**  
**Test Period 1 January 1984 to 31 December 1984**

	Hearing <sup>1</sup> Evidence \$(000)	Amount Disallowed \$(000)	Amount Deferred \$(000)	Other Adjustments \$(000)	Authorized by NEB \$(000)
Gas Plant in Service	469,585	(9,365)	(626)	114	459,708
Accumulated Depreciation	(18,766)	1,923	—	—	(16,843)
Net Gas Plant	<b>450,819</b>	<b>(7,442)</b>	<b>(626)</b>	<b>114</b>	<b>442,865</b>
Working Capital	5,722	(653)	—	—	5,069
Tax Benefit on Sponsors' Development Costs	(16,077)	956	—	—	(15,121)
<b>TOTAL RATE BASE</b>	<b>\$440,464</b>	<b>\$(7,139)</b>	<b>\$ (626)</b>	<b>\$ 114</b>	<b>\$432,813</b>

<sup>1</sup> This column includes the applied-for rate base per TQM's Update, calculated using the approved method of averaging (see Section 3.3).

### 3.3 Averaging of Test Year Rate Base

TQM applied to calculate its average rate base by summing the beginning and ending monthly balances of the test year and dividing by 24. The Applicant said this method provides the most accurate matching of capital and rate base.

The method of calculation applied for by TQM differs from that used by the Board in the June 1983 Reasons for Decision. In the June 1983 Reasons for Decision, the Board calculated the test period average rate base by employing the method of calculation referred to as the 13-month average. Specifically, for the six-month period 1 July 1983 to 31 December 1983, the average was calculated by summing the beginning and ending balances of the first month of the test period (July 1983) with the ending balances of the remaining months of the test period and dividing the total by seven.

During cross-examination, it was determined that under TQM's plant accounting procedures, AFUDC is still recorded on an addition to gas plant in service the first month that the addition is in service and depreciation does not start until the month after an item is placed in service. Consequently, there is a one-month lag in the recording of AFUDC and depreciation. Under the method of calculating rate base proposed by the Applicant, AFUDC and return would both be

recorded on an addition to gas plant in service in the first month it was placed in service. When this was put to a witness for the Applicant, he agreed, but explained that the AFUDC was earned in the previous month.

Some intervenors disagreed with TQM's applied-for method of calculating average rate base arguing TQM had not demonstrated that the approved method was unfair. It was also pointed out that the 13-month average is the method of calculating average rate base used by other companies. TCPL and Northern and Central were cited as examples.

The Board is not persuaded that the method authorized in the June 1983 Reasons for Decision is unfair to the Applicant. In addition, it is the Board's view that TQM did not demonstrate how the applied-for method is more appropriate for rate-making purposes. Accordingly, the Board requires TQM's average rate base to be calculated using the 13-month average.

### 3.4 Gas Plant in Service

TQM's projection of average gas plant in service for the test year was \$469.585 million (calculated using the approved method of averaging rate base). For the reasons indicated hereafter, the Board has adjusted the test period average gas plant in service in the following manner:

**Table 3.2**  
**Details of Adjustments to Average**  
**Gas Plant in Service**  
**Test Period 1 July 1983 to 31 December 1983**

Reference	Amount Disallowed \$(000)	Amount Deferred \$(000)	Other Adjustments \$(000)
3.2 Petro-Canada Costs	1,892		
3.2 AFUDC on Sponsors' Development Costs Prior to 16 May 1980	2,120		
3.4.1 Cost Variance on GC-64	3,184		
3.4.2 Settlement with Contractor	130		
3.4.3 Projects not to be built	910		(114)
3.4.4 Portneuf Meter Station		300	
3.4.4 La Pérade Meter Station		66	
3.4.4 Donnacona Meter Station		120	
3.4.5 1983 Class C		140	
3.4.5 1984 Class C	29		
3.4.6 Construction Warehouse Inventory	912		
3.4.7 Stand-by Plant	56		
5.2.1 Capitalized Wages, Salaries and Benefits	6		
5.2.3 Capitalized Consultants Expenses	84		
5.2.3 Capitalized Directors' Fees and Expenses	18		
5.2.3 Capitalized Regulatory Expenses and Contingency	24		
<b>TOTAL</b>	<b>\$9,365</b>	<b>\$626</b>	<b>\$(114)</b>



### **3.4.1 Deferred Portion of the Cost Variance on GC-64 Construction**

In the Board's review of the costs related to the construction of the GC-64 portion of the TQM facilities during the 1983 hearing, a cost variance of \$14.820 million for this project was calculated based upon evidence adduced by TQM. This cost variance represented the total actual price of the contracts exclusive of the labour differential payments, less the estimated contract price at the commencement of construction. As a result of the fact that TQM was not prepared to bring forth evidence on all of the components of this overrun, the Board deferred its decision on the final amount of costs incurred on GC-64 that would be included in rate base. However, it was clear to the Board at the time of the 1983 hearing that some of the causes for the cost overrun, such as the unsettled labour environment, were beyond the Applicant's control. In recognition of this, the Board permitted TQM to include in rate base half of the cost variance including AFUDC to 31 December 1982. Accordingly, rate base treatment of \$7.824 million, was permitted.

The main issue which TQM had been reluctant to address during the 1983 hearing was the performance of the first contractor (Universal Pipe Line Enterprises Ltd.). Initially the Applicant had stated that the first contractor for the GC-64 project had been non-responsive, non-performing and poorly organized. Subsequently, however, TQM was reluctant to discuss this issue, citing ongoing litigation at the time, between itself and Universal.

At the outset of the 1984 hearing, TQM indicated that it was prepared to deal with the issue of the performance of the first contractor. The Applicant indicated that the dispute at the time of the 1983 hearing was related to a claim by the contractor for extra costs and that this had since been successfully settled out of court. In dealing with the issue of the performance of Universal, TQM's position in the 1984 hearing was that the contractor's performance had been good. This assessment was based on the performance of the second contractor operating in similar circumstances and it was stated to be the reason why the Applicant had not made a claim against the performance bond taken out by the first contractor.

In the light of this new evidence, intervenors re-examined the whole issue of the causes for the cost variance on the GC-64 project. Most of the evidence obtained during the 1983 toll hearing relating to this cost variance was incorporated into the record of the 1984 hearing.

Evidence given by TQM indicated that although approval of the detailed route was received from the Commission de protection du territoire agricole du Québec in December 1980 and it was intended to award the contract on 1 May 1981, the first contract was not actually awarded until 3 August 1981. The

late awarding of the contract reduced the time period available to complete the project and increased the risk of having to work in unfavourable soil conditions, due to the combined effects of inclement weather and of the late season. A witness for the Applicant estimated that the cost for this delay was between one and two million dollars. Counsel for the APMC argued that the delay in awarding the contract was an important contributory factor to the overall cost variance on the project. The Board notes that evidence from the 1983 hearing indicated that 20 percent of the cost variance (approximately \$3.0 million) was attributed to the extra costs for labour and equipment due to unexpected poor weather. The Board is of the view that the weather problems encountered during construction were compounded by the lateness of the season and that consequently this amount could have been substantially reduced had the delays in awarding the contract not occurred. In the opinion of the Board, the explanations given by the Applicant did not provide sufficient justification for these delays.

Evidence given in the 1983 hearing indicated that 8 percent of the cost variance (approximately \$1.2 million) was related to an overrun in the costs for rock ditch excavation. Principally this was due to the fact that the extent of rock ditch excavation which was necessary along the Boisbriand lateral was unforeseen. The lack of timely detection of the extent of the rock ditch excavation necessary for this lateral was estimated by the Applicant to cause a delay of approximately ten days to the contractor, who was being reimbursed on a cost plus basis. TQM's witnesses indicated that their knowledge of the geology of the area prior to construction was based on six bore holes which were drilled along the 6 km length of the line. TQM's Boisbriand lateral is located parallel to and about 18 meters east of the Mirabel pipeline owned and operated by Trans-Northern Pipelines Inc. Witnesses for the Applicant confirmed that in doing a pre-construction assessment of the geology of the area, they did not consult with Trans-Northern or request to see the as-built drawings for the Mirabel line. It is the Board's view that it is reasonable to expect parties building pipelines in regions of uncertain geological formations to make reasonable attempts to benefit from the experience of others who have previously traversed the region. Had such an attempt been made in this case, the Board is of the opinion that a substantial amount of this portion of the cost variance could have been avoided.

Under the circumstances outlined in the evidence and taking into account the various explanations and opinions expressed therein, the Board concludes that some of the costs associated with the building of the GC-64 portion of the pipeline could have been avoided. In the absence of detailed estimates of specific items a reasonable amount to be disallowed is \$3 million. The amount disallowed by the Board is



set at \$3 million plus the AFUDC recorded on this amount since 31 December 1982 of \$184,000. This decision results in average GPIS for the test period being reduced by \$3.184 million.

### 3.4.2 Settlement With Contractor

Upon completion of the construction of the pipeline authorized by GC-64, one of TQM's contractors (Universal) filed a claim for extra costs totalling \$6,015,912 which were not provided for in its contracts with TQM. In August 1983 TQM and Universal agreed to a settlement of \$1,700,108.67. In its Supplemental Application, TQM requested that this amount be included in its rate base.

One of the components of this settlement was the \$129,610 cost associated with the extra work involved in the decision by TQM to change from a 7010 to an 8010 electrode for the welding of the section of pipeline crossing the Lake of Two Mountains. This extra work related to the necessity to qualify new welding procedures.

The decision to change the electrodes was based on the fact that TQM determined, just prior to the commencement of production welding, that some of the pipe was stronger than the 7010 electrode and to compensate for this a stronger electrode was desired. The 7010 electrode was originally selected to be stronger than the minimum specified strength of the pipe. However, in order to ensure that the minimum specified strength is met, pipe mills manufacture pipe in a range of strengths above the minimum. A witness for the Applicant conceded that this practice of manufacturing pipe in a range of strengths above the minimum specified, was well known.

The Board is of the view that a reasonable degree of foresight could have eliminated the necessity for this extra cost. Therefore, the Board directs that this \$129,610 cost be removed from rate base. Average GPIS for the test year is reduced by this amount.

### 3.4.3 Project Costs for GC-65 Facilities Not to Be Built

Evidence given during the hearing indicated that the Applicant has decided not to build the following facilities originally certified under GC-65: the Lachute, Marelán, Mt-Rolland, and Lévis/Lauzon laterals and the Lachute, Marelán, Mt-Rolland, Mascouche and Breakeyville meter stations.

The combined costs which TQM had incurred for all the above-mentioned GC-65 facilities not to be built is broken down as follows:

Item	Cost \$(000)
Materials	265
Installation	11
Construction Management	92
Land and Land Rights	184
Engineering	2,426
Overhead	446
AFUDC	913
<b>TOTAL</b>	<b>\$4,337</b>

The Applicant sought to recover, through a three-year amortization with return on the unamortized balance, the costs they had incurred with respect to these facilities except the Lévis/Lauzon lateral and Breakeyville meter station.

In the June 1983 Reasons for Decision the Board decided to defer the inclusion in rate base of the cost of all of these facilities except the Mascouche meter station, for which rate base treatment had not been sought by the Applicant. Similarly, the Board deferred consideration of rate base treatment for the Lévis/Lauzon lateral and Breakeyville meter station. Since the Applicant has now taken a decision not to build the Lévis/Lauzon lateral and Breakeyville meter station, the Board considers it appropriate to deal with these costs at this time.

The expenditure of funds in categories such as materials, installation, construction management, and land and land rights indicates that the work done on these projects was more than just preliminary engineering. In fact, work on the Lachute lateral advanced to the point of the submission by TQM of the Plans, Profiles and Books of Reference to the Board. However, evidence given by witnesses for the Applicant during the course of the hearing indicated that in each case the funds were being expended on these projects in the absence of firm sales contracts with the distributors.

The evidence indicated that the facilities would not now be built by anyone along the originally intended routes. The main objection by the intervenors to the Applicant's proposed rate treatment for these projects was that the facilities for which the costs were incurred were not and would never be used and useful. Counsel for the Consumers' Gas Company Ltd. (Consumers') did not dispute that the costs for TQM's unsuccessful projects were prudently incurred but described the risk of non-recovery of these costs as business or entrepreneurial risks which should be borne by the sponsors. On this basis, he argued that the recovery of the costs which did not have a used and useful function should be disallowed. Alternatively, he suggested that the Board could allow the recovery of the costs, but disallow return on these costs.

Counsel for the Applicant argued that these costs were prudently incurred on projects certificated by the Board. He cited the example of the toll treatment which the Board allowed in the June 1983 Reasons for Decision to the costs for GC-65 facilities now to be built by GICQ as a precedent for the toll treatment being sought in the 1984 hearing for the additional facilities not to be built by TQM. The Board believes these two examples to be distinguishable in that the facilities cited in example by Counsel for TQM were to be built, albeit by GICQ.

The Board considers that parties holding certificates, pursuant to Part III of the NEB Act, should



assume some business risk and cannot expect that all costs incurred are automatically recoverable in tolls. As a result, the Board has decided to allow the inclusion in rate base of direct charges and overhead for these projects totalling \$3,424,000 but to disallow the inclusion in rate base of the total AFUDC amounting to \$913,000. This disallowance of AFUDC is judged by the Board to adequately reflect the assumption by the certificate-holder of the business risks associated with these GC-65 facilities.

The Board has also decided to allow the amortization of these project costs less AFUDC on a straight line basis over three years. Accordingly, average GPIS during the test year is reduced by \$796,000.

#### **3.4.4 Other Expected Additions to Rate Base**

TQM forecasted additions to rate base during the test year for the Portneuf, La Pérade and Donnacona meter stations.

In the case of the Portneuf meter station, TQM in its Supplemental Application applied for a three-year amortization of the costs it had incurred for this project, on the basis of its decision not to build the meter station. However, during the course of the hearing, the Applicant changed its position stating that it now intended to build the meter station. The Board notes that at the time of this toll hearing, approval to construct this meter station had not been granted under Part III of the NEB Act. Accordingly, the Board has decided to disallow the inclusion in TQM's test period rate base of the estimated cost of this facility of \$649,000 and average GPIS during the test period is, therefore, reduced by \$300,000. Once the Applicant has sought and obtained approval under Part III of the NEB Act, the matter of inclusion of the appropriate costs in rate base may be addressed.

TQM originally applied for the inclusion in rate base of the costs associated with proposed meter stations at La Pérade and Donnacona. During the course of the hearing, Counsel for the Applicant explained that TQM did not now intend to build meter stations at these locations, but rather, to install sales taps.

The La Pérade sales tap was authorized by the Board and constructed by the Applicant in 1983. The estimated cost at the time of TQM's application pursuant to Part III of the Act for authority to construct this facility was \$24,000. However, in its toll hearing TQM applied for an amount of \$90,000 to be included in rate base for this sales tap. No explanation for the apparent and significant overrun was offered by the Applicant. The Board sees no convincing reason at this time to include in TQM's rate base more than the estimated cost of \$24,000 for this facility. Accordingly, average GPIS during the test period is reduced by \$66,000.

The construction of the Donnacona meter station was originally authorized by GC-65. In the 1983 hear-

ing TQM had forecast placing this facility in service in August of 1983 and the Board in its June 1983 Reasons for Decision permitted TQM to include in its rate base the estimated cost of \$1.250 million. Construction of the Donnacona meter station was not undertaken in 1983 but was forecasted to take place during 1984 in TQM's original and supplemental 1984 Applications, at estimated costs of \$457,000 and \$486,000 respectively. During the course of the hearing it was learned that the Applicant now intends to construct a sales tap at this location instead of a meter station. In the Update TQM provided a new cost estimate of \$312,000 to reflect this change in plans. With respect to the installation of a sales tap at Donnacona the Board notes that TQM has not demonstrated to the Board the existence of a viable natural gas market at this location, nor obtained approval under Part III of the Act authorizing it to implement its revised construction plan. In view of the above, the Board has decided to disallow the inclusion in TQM's test period rate base of the costs for this facility of \$312,000. Accordingly, average GPIS during the test period is reduced by \$120,000.

#### **3.4.5 1983 and 1984 Class C Projects**

The Applicant included in its forecast of rate base for the test year additions to reflect its 1983 and 1984 Class C projects.

Rate base additions covering the 1983 Class C application included 15 projects totalling \$1,263,000. One of these projects included the costs associated with the detailed design of a supervisory control and data acquisition (Scada) system which was intended to serve a pipeline system extending to Halifax, Nova Scotia. Evidence given during the hearing indicated that a different design was adopted for the pipeline now in service. Therefore, TQM is directed to remove from rate base for the test year the costs of \$181,600 for the Scada system. These costs should be deferred in the same manner as directed last year for GC-68 costs: that is, when a final decision has been made on whether GC-68 facilities will be built, the Applicant may seek to have included in a future tolls application the matter of whether these costs, or a portion thereof, should be included in rate base. The deferral of these costs will result in average GPIS in the test year being reduced by \$140,000.

In the case of the 1984 Class C application the rate base additions provided for in the Updated Supplemental Application included 10 projects totalling \$570,000. In its review of these projects, under Part III of the NEB Act, the Board denied the Class C application with respect to the construction of two of these projects the costs of which were estimated at \$73,000 in total. Therefore, the forecast rate base additions for these two projects are also disallowed. Accordingly, average GPIS over the test year is reduced by \$29,000.



### **3.4.6 Construction Warehouse Inventory**

TQM included in rate base the value of its construction warehouse inventory. The Applicant stated that the purpose of the construction warehouse inventory is to identify and temporarily store good and useable materials which are surplus to construction. Upon completion of the construction phase, the materials identified as surplus can be withdrawn from the inventory; for other construction projects, to replace items withdrawn from materials and supplies inventory, or to be sold. In the case of the former two, all of the original costs are transferred from the construction warehouse inventory to the appropriate account. In the case of a sale, the loss or gain on disposition is transferred to the construction order in rate base for which the material was originally ordered.

In its Supplemental Application, the Applicant forecast test year beginning and ending balances of \$1,338,000 and \$538,000 for construction warehouse inventory. In its Update, TQM revised these forecasts to \$1,235,000 and \$435,000 respectively. In each forecast, the reduction of \$800,000 in the construction warehouse inventory in the year was due to four forecasted sales of materials at their original cost of \$200,000 each. Since the Applicant provided no explanation or justification for the revision provided in the Update, the Board has decided to use the original forecast.

One intervenor was concerned about the size of this inventory and argued that the Board should set time limits within which TQM should dispose of this material.

The Board is of the view that the cost for the materials acquired and subsequently transferred to the construction warehouse inventory were prudently incurred. Furthermore, a reasonable level of surplus materials can be considered to be providing a used and useful function during the construction phase.

Witnesses for the Company indicated that they did not foresee the balance in the construction warehouse inventory ever reaching zero. With the main construction phase now completed, the Board is concerned that these materials are not currently used and useful and the Applicant was not able to demonstrate that they would be used and useful for construction projects in the future. The Board considers that surplus construction material which has no foreseeable future use should be disposed of within a reasonable time. Accordingly, TQM is directed to remove the construction warehouse inventory from GPIS and to account for it separately. This will reduce the average GPIS during the test year by \$912,000. Since the material was originally purchased in connection with the construction of the facilities now operated by TQM, the Applicant should be allowed some return during the period of liquidation without unduly burdening the toll payers. The Board, therefore, has decided that the average balance of construction warehouse

inventory forecast for the test year in the Supplemental Application shall earn a return equivalent to one-half the authorized rate of return on rate base.

### **3.4.7 Stand-by Plant**

In late 1983 TQM replaced two meter runs with runs of a smaller size and the Applicant forecast two more meter run replacements during the test year. The replacement of these meter runs was necessitated by the fact that the forecasted minimum gas flows used for design far exceeded the actual minimum gas flows at these locations. In fact, the actual minimum gas flows at the four locations were so small relative to the design of the original meter runs that the Applicant was concerned about the accuracy of gas measurement.

Each of the meter runs which was replaced is in storage as stand-by plant and together they are valued at \$71,275. Under the accounting procedures utilized by the Applicant, the costs for materials in stand-by plant remain in gas plant in service where they are depreciated and earn a return.

The Board is of the view that, under the circumstances, it would be appropriate to account for the items in stand-by plant in a manner which is similar to the treatment decided upon for the construction warehouse inventory. Therefore, the Applicant is directed to remove the costs for materials transferred to stand-by plant from gas plant in service and to account for them separately.

The Board has decided that stand-by plant is not to be depreciated, and that the undepreciated value at the time of transfer to stand-by plant is to earn a return equivalent to one-half the authorized rate of return on rate base. Accordingly, the test year average gas plant in service has been reduced by \$56,000 and, for rate-making purposes, a half return has been calculated on that amount.

## **3.5 Allowance for Funds Used During Construction**

In its Supplemental Application, TQM included an amount of AFUDC which was calculated by applying its requested monthly rate of return on rate base to the previous month-end balances of GPUC less capitalized AFUDC. The rates of return employed, while averaging out to the 13.26 percent applied for in its Supplemental Application, fluctuated from month to month. The Board notes, however, that a witness for the Applicant stated during cross-examination that the AFUDC rate employed by TQM during each month of its previous test period was a uniform 12.9 percent, which was the rate of return on rate base approved by the Board in its June 1983 Reasons for Decision.

A witness for TQM also stated that it was the intention of TQM to include the estimated amount of the test year stand-by fee applicable to TQM'S short-term



debt financing in the amount of AFUDC capitalized. No reason was given for this proposed treatment.

The Board finds it inappropriate to include the stand-by fee in the charges for AFUDC in the manner suggested by the Applicant. The Board considers the stand-by fee a part of the cost of debt and takes it into account in determining the appropriate interest rate to be allowed for the debt component of the approved capital structure. The stand-by fee is discussed further in Section 4.2.2 of these Reasons for Decision.

The Board has also decided that TQM is to use the allowed rate of return on rate base of 12.66 per cent to calculate AFUDC. In accordance with the previously approved procedure, as reflected in the Company's application, this rate is to be applied to the previous month-end balances of GPUC less capitalized AFUDC.

### 3.6 Working Capital

The following table is a summary of the authorized working capital for the test year.

**Table 3.3**  
**\$(000)**

	Hearing <sup>1</sup> Evidence	Adjustments	Authorized By NEB
Cash	\$929	\$(147)	\$782
Materials and Supplies	337	10	347
Transmission Line Pack	614	(73)	541
Prepayments	552	(37)	515
Downscaling	3,290	(406)	2,884
<b>TOTAL</b>	<b>5,722</b>	<b>\$(653)</b>	<b>\$5,069</b>

1 This column includes the applied-for working capital per TQM's Update, and is calculated using the approved method of averaging rate base.

#### 3.6.1 Cash

In compliance with the Board's request, TQM submitted a cash time-lag analysis. TQM stated that it chose the three-month period from 1 April 1983 to 30 June 1983 for this analysis since the nature and timing of expenses incurred, the capitalization treatment of certain operating and maintenance expenses, and the level of activity reflect the planned test-period work program more closely than any other three-month period of actual operations. Based on this time-lag analysis, TQM proposed a cash working capital requirement of one-eleventh of cash operating expenses for the test year. TQM's analysis calculated the average time lag from the date of the issuance of a cheque for payment of an O&M expense until the 20th of the month following delivery of service, the date on which payment is received from TransCanada PipeLines Limited for the transportation of gas. TQM claimed that this analysis dealt with the true cash flow

of its operating and maintenance expenses excluding gas-related costs, amortizations such as downscaling expenses, and prepayments and deposits.

Some intervenors questioned the appropriateness of the three-month period chosen by the Applicant given that TQM was still in a construction phase in the second quarter of 1983, and some concern was expressed that such a short period may reflect seasonal or cyclical characteristics. Moreover, Counsel for Consumers', noting that a witness for the Applicant was unable to estimate the average delay between the time TQM's cheques are issued and the time they are cashed, submitted that the time TQM's cheques are outstanding would reduce the 33 days referred to in the lead/lag analysis. Some intervenors were concerned that the need for cash working capital was overstated by TQM, and argued that TQM had not demonstrated why the Board should change the 30-day allowance it found appropriate in the June 1983 Reasons for Decision.

Counsel for the Minister of Energy for Ontario submitted that TQM had shown \$200,000 for cash on hand throughout the test year, as reflected in its balance sheet, while at the same time seeking \$929,000 as cash working capital. The same intervenor also noted that regulatory expenses have been included in operating expenses for the purpose of calculating cash working capital and questioned the appropriateness of this in view of the June 1983 Decision in the TCPL toll hearing (RH-2-83). In that decision, the Board stated at Section 2.3.1 that it was not convinced that it was appropriate to include rate hearing expenses in the determination of average lag in the calculation of the allowance for cash working capital.

During cross-examination, a witness for the Applicant admitted that a three-month period closest to the end of 1983 would have been more representative of the test year than the three-month period on which the analysis was based. He also agreed that a period longer than three months would tend to smooth out the impact of seasonal or cyclical effects. The same witness conceded that over 50 per cent of TQM's cheques would not be cashed on the day they were issued; however, he could not estimate the average delay between the time the cheques are issued and the time they are cashed.

Another witness for the Applicant admitted that the lag time would have been reduced had consideration been given to TQM's accruals such as audit fees and other items booked at the end of the month but not paid until the next month. The witness, however, felt that the impact would be small.

With regard to the question of regulatory expenses being used in the determination of the cash working capital, a witness for the Applicant pointed out that in the case of TCPL, the rate case expenses were deferred rate case expenses whereas the ones included in TQM's lead/lag study were not deferred.

The three-month period chosen by TQM for its cash time-lag analysis is considered by the Board to be short and, therefore, more subject to seasonal and cyclical influences than a longer period, and also may not necessarily be representative of test-year operations. In its analysis, TQM used the dates on which cheques were issued instead of the dates on which they actually arrive at TQM's bank and are deducted from its account. Had the latter dates been used, it is the Board's view that the time period calculated by TQM would have been reduced. Moreover, the Board believes that the time period would have been further reduced, although marginally, if full consideration had been given to the accruals referred to above.

Based on the foregoing, the Board believes that TQM has not demonstrated that the basis used in the previous decision for the cash working capital allowance should be changed. Accordingly, the Board will permit for the test period an allowance in rate base for cash working capital equal to one-twelfth of the operating and maintenance expenses approved by the Board. The operating and maintenance expenses to be used in determining cash working capital will include regulatory expenses but exclude gas-related costs.

### **3.6.2 Materials and Supplies Inventory**

TQM applied for the inclusion in rate base of an average amount of \$348,000 for materials and supplies (per the Supplemental Application, calculated using the applied-for method of averaging rate base). In its Update, TQM revised this forecast to \$342,000 and although requested to do so by the Board, provided no explanation or justification for the revision. The purpose of this inventory is to provide TQM with immediate access to all the materials which would be necessary to effect emergency replacement of the components of the pipeline which have a reasonable probability of failure.

During the course of the hearing it was established that the rate of growth in this account from the base year to the test year was approximately twice the rate of growth experienced in the gas plant in service account. A witness for the Applicant attributed the difference in these growth rates to the fact that TQM understocked materials and supplies during the base year. The high level of construction during that time period permitted TQM to rely to some extent on available construction materials to support its pipeline in the event of a failure.

The Board is of the view that the reason for the increase in this account put forward by the Applicant's witness is reasonable and, accordingly, approves the test year budget for the Materials and Supplies Inventory. However, on the basis of the information presented during the hearing and barring any major facilities additions, such as compressor stations, the

Board would expect that the balance in the Materials and Supplies Inventory should remain relatively constant for the foreseeable future.

Since the Applicant provided no explanation or justification for the revision included in the Update, the Board has decided to use the original forecast for toll purposes. Accordingly, the Board approves for the inclusion in rate base an amount of \$347,000 calculated using the approved method of averaging rate base (see Section 3.3).

### **3.6.3 Transmission Line Pack**

TQM originally forecast an average inventory of line pack gas during the test year of \$541,000. Although this represents a substantial increase over the base year average of \$226,000, evidence given during the hearing confirmed that this increase represented the line pack necessary for the additional facilities which TQM has placed in service since the base year. In addition, the evidence demonstrated that the method of calculating line pack gas for the test year was consistent with the method previously used by TQM.

In its Update, TQM estimated an average inventory of line pack gas during the test year of \$614,000. Though requested by the Board, no explanation was given for the increase in the estimate from \$541,000 to \$614,000. In the absence of a satisfactory explanation for this increase, the Board has disallowed the inclusion in the test year rate base of the difference of \$73,000 between the original and updated estimates for line pack gas. Accordingly, average rate base during the test year is reduced by \$73,000.

### **3.6.4 Prepayments**

In its Application and Supplemental Application, TQM requested the inclusion in the working capital component of rate base of prepayments averaging \$533,000 calculated using the applied-for method of averaging rate base. In its Update, TQM revised its forecast of prepayments and requested the inclusion in rate base of an amount averaging \$553,000, also calculated using the applied-for method of averaging rate base.

No explanation or justification was given for the increase either before, contemporaneously with or after the filing of the Update. Accordingly, the Board has decided that the provision for prepayments to be included in rate base shall be calculated based on the forecast for this item provided in the Supplemental Application. That forecast results in average prepayments of \$515,000 for the test year when calculated using the approved method of averaging rate base.

### **3.6.5 Downscaling Expenses**

In the June 1983 Reasons for Decision, the Board found it appropriate that the provision for downscaling expenses to be included in rate base during the test



period should be based on the total of the actual expenditures incurred in 1982 and the forecast for 1983. Accordingly, approval was given for the amortization of estimated average downscaling costs of \$2.425 million for the years 1982 and 1983 on a straight-line basis over a period of three years commencing 1 July 1983. Furthermore, TQM was instructed to segregate the actual downscaling expenses as incurred during 1982 and 1983 in its accounting records, and bring these amounts forward for consideration by the Board in TQM's next toll application.

TQM submitted the actual downscaling costs to 31 December 1983 and sought to amortize the unamortized balance of the actual 1982-1983 downscaling costs over a 30-month period commencing 1 January 1984. In addition, TQM applied to earn a return on the forecast of its 1984 downscaling expenses and to amortize the 1984 downscaling expenses over a three-year period commencing 1 January 1985.

GICQ did not disagree with the principle of amortizing downscaling expenses, but argued that the period of amortization should remain at at least three years and that the 1984 downscaling costs should not be treated better or differently from the past downscaling costs. CPA/IPAC, however, argued against the deferral of downscaling costs requested by TQM in paragraph 14 of the Supplemental Application, submitting that a witness for the Applicant acknowledged that downscaling expenses "were reasonably foreseeable and within the control of the company".

In the opinion of the Board, TQM is making the appropriate adjustment to the 1982 and 1983 downscaling expenses. That is, TQM is now applying to amortize the actual downscaling expenses incurred less the amount amortized to 31 December 1983 over the remaining months of the three-year amortization period authorized by the Board in the June 1983 Reasons for Decision. Accordingly, the Board approves the Applicant's request for the amortization of the unamortized balance of the actual 1982-1983 downscaling costs on a straight-line basis over a 30-month period commencing 1 January 1984.

With respect to the forecast of 1984 downscaling expenses, the Board considers that the final revision to that forecast was filed without sufficient explanation of the changes. That revision contains a much higher amount of severance pay in January 1984, i.e. \$430,965 instead of the \$100,920 shown in the previous forecast. This increased the total forecast of 1984 severance pay from \$191,784 to \$521,793 and the total forecast 1984 downscaling expenses from \$1,104,144 to \$1,434,189. If this is due to TQM laying off more employees than previously planned, such a lay-off should result in a concomitant reduction in

O&M expenses. Such a reduction is not evident in TQM's forecast of 1984 O&M expenses. Since no explanation for the increase was given, the Board while approving the deferral of 1984 downscaling costs, has decided to exclude the additional severance pay of \$330,045 from the projection of 1984 downscaling expenses.

With respect to the amortization of the 1984 downscaling expenses, it is the Board's opinion that there is no reason to delay the commencement of amortization until 1 January 1985 as proposed by the Applicant. Accordingly, the Board has included the average forecast of downscaling expenses for 1984 (\$597,000) in rate base as at 1 January 1984. This amount is to be amortized on a straight-line basis over a period of three years commencing 1 January 1984.

The Applicant is instructed to segregate the actual downscaling expenses incurred during 1984 in its accounting records and bring these amounts forward for consideration by the Board in its next toll application.

### **3.7 Tax Benefit on Sponsors' Development Costs**

Evidence presented during the 1983 toll hearing indicated that the development costs incurred by the sponsors were fully deducted by them for tax purposes at the time they were incurred. The Board felt that consideration had to be given to that fact in the calculation of TQM's toll. Accordingly, the Board decided that TQM should only earn a return on one-half the unamortized balance of the approved development costs and should effectively recover only the after-tax value of the approved development costs through amortization. Although the Board prescribed this toll treatment, the Board considered it appropriate for TQM to include in its NEB accounts the full value of the approved development costs. In order to meet both these objectives, the Board decided that "an amount equivalent to one-half the unamortized balance of the approved costs would be included in the calculation of rate base as a credit". In Appendix VI of the June 1983 Reasons for Decision, that credit was identified as "Tax Benefit on Sponsors' Development Costs".

In accordance with the Board's June 1983 decision, the Applicant included in its applied-for rate base a credit representing the tax benefit on sponsors' development costs which it calculated using the applied-for development costs. The Board agrees that the treatment given this item in the June 1983 Reasons for Decision should be continued, and the average balance of the credit for the test year calculated using the approved development costs is \$15.121 million.





## Chapter 4

### Return on Rate Base

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#### 4.1 Capital Structure

As it did in its 1983 toll application, TQM has requested that the Board determine the Company's rate of return on rate base by reference to a capital structure consisting of 75 percent debt and 25 percent equity. As was also the case in respect of the Company's 1983 toll application, no intervenor objected to the use of these overall ratios in the determination of the Company's allowed rate of return.

In the circumstances of this case, the Board has decided that the applied-for capital structure consisting of 75 percent debt and 25 percent equity continues to form an appropriate basis for the determination of the Company's allowed rate of return on rate base.

#### 4.2 Cost of Debt

The debt financing currently in place for TQM is a bank loan negotiated with the Bank of Montreal. In its applications TQM proposed the issuance of long-term debt to replace part of this bank loan.

##### 4.2.1 *Proposed Long-Term Debt*

In its Supplemental Application, the 75 percent debt component of the Company's proposed capital structure reflects not only the short-term variable cost debt obtained under its financing arrangements with the Bank of Montreal but also the inclusion of two 100 million dollar issues of long-term debt that the Company has forecast to be in place by March and September of 1984.

The Applicant forecasted cost rates, before adjustment for estimated issuance costs, of 13 and 13.5 percent for the two long-term debt issues planned for the test year. There was considerable cross-examination during the hearing as to the appropriateness of these rates. It was the view of CPA/IPAC's expert witness that the applicable rates for the two issues would be in the order of 25 to 35 basis points less than these estimated rates. The witness for the Minister of Energy for Ontario noted that, in his opinion, the applicable rates for the two issues

would be 12.75 and 13 percent. There was also a degree of uncertainty revealed during cross-examination as to the exact timing of the long-term debt issues. A witness for the Company stated that work had begun with respect to the filing of a preliminary prospectus for the first 100 million dollar issue. A second Company witness indicated that, assuming there were no unusual difficulties encountered in its clearance, an offering might take place at the end of March or early April for closing some two to two-and-a-half weeks later. However, this witness also indicated that, to the extent the views of the regulatory and bond rating agencies were dependent upon the issuance of the Board's Decision in this case, TQM's expected schedule might be altered. It was the view of one intervenor that the evidence suggested the first issue would not likely be completed before June 1984 and that the second issue might not even take place during the test year. During cross-examination, a witness for TQM indicated that there was still some doubt as to whether the borrower would be TQM Inc. or the partnership.

In the Board's view, the evidence indicated that both the timing and cost rates associated with the proposed long-term debt issues may differ from TQM's expectations. Giving consideration to all of the evidence presented regarding the Company's proposed long-term debt financing, the Board has decided that the 75 percent debt component of the allowed capital structure is to be costed at a short-term rate. The specific rate to be used is set forth in Section 4.2.2 below.

When the terms of the proposed issues of long-term debt are established, the Company may apply to have appropriate changes reflected in the capital structure and rate of return on rate base allowed in this Decision. TQM shall also simultaneously file any such application upon the interested parties to this proceeding. These parties will have three weeks from the date the application is filed to submit their comments to the Board. Based on the information submitted by the Applicant and the intervenors, the Board will decide at that time whether any adjustment need to be made in the tolls.

#### **4.2.2 Short-Term Debt**

TQM applied for a short-term interest rate of 11.625 percent,<sup>1</sup> in conjunction with a deferral account that would permit the inclusion in future tolls of the net dollar cost attributable to fluctuations during the test year in the Bank of Montreal's prime lending rate.

TQM's current financing agreement with the Bank of Montreal provides short-term debt at a cost rate of prime plus five-eighths of one percent.<sup>2</sup> The Company's expert witness was of the view that the prime rate of 11 percent current at the time of the hearing provided an acceptable basis for the requested test year cost rate of prime plus five-eighths of one percent. During cross-examination, one intervenor witness stated that he agreed with a forecasted prime rate of 11 percent for 1984. In the opinion of another intervenor witness, the prime rate would lie in the range of 10 to 11 percent for most of the test year, and be, on average, something less than 11 percent.

The Board notes that the cost rate specified in the current agreement with the Bank of Montreal has increased by three-eighths of one percent over the level of prime plus one-quarter of one percent specified in the Company's original Bridge Financing Agreement. During cross-examination, a witness for the Company stated that the increase in this rate was attributable to the fact that the original bridge loan had been extended on a short-term basis. In final argument, one intervenor was of the view that TQM had not adduced sufficient evidence to support the inclusion of the additional three-eighths of one percent cost in its tolls. With respect to future potential cost increases, a witness for the Company stated that the provision in the agreement with the Bank for a minimum one-half of one percent penalty to be added to the required rate at the end of 1984 was not given much consideration in the Company's negotiations with the Bank since it was felt that this provision was included to ensure further negotiations would take place and was not an indication of the rate that would apply to any actual outstanding borrowings.

As noted above, TQM applied for a deferral account in relation to its current short-term financing that would allow for the inclusion of the actual cost of short-term debt in its tolls. In this regard, the witness for CPA/IPAC, while supporting such an idea, recommended that an upper limit be placed on the account equal to the long-term debt rate approved by the Board in the current proceeding. The setting of such a limit was seen by the witness as giving the Company an incentive to complete the conversion of its short-

term financing to long-term financing. In expressing the view that the Company's proposed deferral account would transfer the risk of interest rate fluctuation to consumers, the witness representing the Minister of Energy for Ontario stated that it would be preferable to see improved stability in the cost of debt through the establishment of long-term financing.

In final argument, TQM stated that if the applied-for deferral account was not acceptable to the Board, an alternative proposal would be to set the short-term interest rate at a minimum of 12.375 percent, thus allowing the Company at least a 75 basis point margin for taking on the risk of being unable to recover its short-term financing costs. In contrast, the proposed short-term rate of 12 percent put forward by the expert witness representing the Minister of Energy for Ontario incorporated a smaller margin in the order of 30 to 40 basis points to reflect the risk of fluctuations in the prime rate. Counsel for the Minister of Energy for Ontario argued that there was a consensus among the witnesses that interest rates were expected to remain flat during the test year, thus reducing the need for a margin in the approved short-term rate for possible interest rate fluctuations.

Having regard to all of the evidence presented, the Board is of the opinion that there should be little fluctuation in the prime rate during 1984 and has decided that a deferral account in relation to the cost of short-term debt is not warranted. It has also determined that, taking into account the risk of fluctuation in the prime rate and the standby fee payable by the Company, 11.875 percent is a reasonable rate to be applied to the 75 percent debt component of the Company's allowed capital structure.

#### **4.2.3 Deferral Account for Foreign Exchange Gains/Losses**

In its Supplemental Application, TQM requested that the Board authorize the establishment of a deferral account in relation to foreign exchange gains or losses. It also requested that it be allowed carrying charges in relation to the account, calculated at the authorized rate of return on rate base.

During cross-examination, witnesses for the Company confirmed that there had been no amounts borrowed in currencies other than Canadian dollars and that the funds expected to be realized through the two proposed long-term debt issues or from the current agreement with the Bank of Montreal would also be in Canadian dollars. A witness for the Company stated that TQM was requesting this deferral account to accommodate the prospect that the long-term loan the Company may have with the Bank of Montreal beginning in 1985 might involve foreign currencies.

The Board is of the view that the allowance of a deferral account for foreign exchange gains or losses is not appropriate at this time, given the uncertainty that future loan transactions will involve foreign

1. Based on a forecasted prime rate for 1984 of 11 percent.

2. Under this agreement, TQM also pays the Bank a stand-by fee of .25% on the difference between the maximum amount of the loan and the amount outstanding on the loan.



currencies. TQM may, however, re-apply for a deferral account at such time that it appears that circumstances will justify monies being raised in currencies other than Canadian dollars and the particulars of the expected foreign exchange transactions are known.

### 4.3 Rate of Return on Equity

TQM applied for a rate of return on equity of 16.5 percent, based on the recommendation of its expert witness. In arriving at his recommendation, the Company's witness employed the discounted cash flow (DCF) and equity risk premium approaches to estimate the cost of equity capital. The witness considered that the comparable earnings test was not applicable to a company whose assets were of recent vintage.

CPA and IPAC presented joint evidence in this matter and recommended a rate of return of 14.75 percent. In making this recommendation, the expert witness for these groups relied primarily on the DCF approach accompanied by an analysis of the appropriateness of the equity risk premium implicit in the result obtained from that technique.

The Minister of Energy for Ontario also presented evidence in this matter and recommended a rate of return on equity of 15 to 15.25 percent. This recommendation was based upon the opinion of its expert witness who considered the equity risk premium, DCF and comparable earnings approaches to estimating the cost of equity capital.

In applying the DCF technique, the Company's witness began by estimating the cost of equity capital to be 15 percent for four samples of high-grade Canadian industrials. This cost rate was comprised of a dividend yield of 3.5 percent and an expected growth rate in dividends of 11.5 percent. The witness tested the reasonableness of the 11.5 percent growth rate by examining the average returns and payout ratios for his industrial samples during the time periods 1976 to 1982 and 1977 to 1981. The witness also applied the DCF technique to three electric-gas distribution companies and five telephone companies, finding the cost of equity capital for each of these groups to be 15 and 14.75 percent respectively.

In the witness' view, both his industrial and utility related DCF studies suggested a basic cost of equity capital of 14.75 to 15 percent. This range was adjusted to 15.5 to 15.75 percent to reflect the witness' views that TQM is of relatively greater average risk than the companies contained in his industrial and utility samples. He then adjusted the mid-point of this range upwards to provide for a market-to-book ratio of 1.1 in arriving at his final 16.5 percent estimate of TQM's rate of return requirement.

In his application of the equity risk premium approach, the witness made two studies to establish what he felt to be an appropriate risk premium. After making adjustments to the first study to recognize

TQM's risk relative to the market as a whole and to the second study to take into account the significant impact of one particular company, the witness concluded that a risk premium of no less than 4.3 to 4.5 percent over long-term Government bond yields and 5.25 percent over preferred share yields was warranted. These risk premiums, added to the witness' projected long-term Government bond and preferred share yields of 12 and 10 percent respectively, gave the witness a cost of equity capital range of 15.25 to 16.3 percent, with a mid-point estimate of 15.75 percent. Adjusting this cost rate to reflect a market-to-book ratio of 1.1 resulted in a cost of equity capital estimate in excess of 16.5 percent.

The expert witness for CPA/IPAC arrived at his rate of return recommendation by first applying the DCF technique to a sample of twenty low-risk non-utility companies. His estimate of the investors' required return (IRR) for these companies lay in the range of 12.7 to 15.3 percent. Because of his view that the utility activities of established Canadian gas transmission companies are of lesser risk than the low-risk non-utilities included in his sample, the witness concluded that an IRR value no greater than 14 percent was applicable to the former companies. The witness then added 50 basis points to this IRR value to take into account his views as to the risks of TQM relative to established Canadian gas transmission companies. In reaching his final recommendation of 14.75 percent, the witness incorporated an allowance for flotation costs of 25 basis points. The size of this allowance took into account the witness' views that the IRR for his sample of industrial companies already implicitly included an allowance to avoid dilution and that there was little possibility that TQM's corporate partners will find it necessary to raise equity funds for investment in TQM in the foreseeable future.

Cross-examination further revealed that the witness' rate of return recommendation of 14.75 percent was, on average, 75 basis points less than his 15.25 to 15.75 percent recommended rate of return range in the 1983 TQM toll hearing. The witness, while agreeing that the business risks of TQM had not materially changed since the time of the last toll hearing, acknowledged having reduced his recommendation by 30 basis points due to the risk reduction he felt was inherent in TQM's proposals to issue fixed rate debt and to have a deferral account in relation to its short-term debt. He also stated that he had reduced his recommendation due to his belief that the rate of return required by equity investors has decreased, by virtue of their recognition that investors in a regulated environment are able to have their allowed rates of return adjusted to provide for the effects of inflation on a fairly frequent basis.

With respect to the risk premium implicit in his final rate of return recommendation, the witness noted

that the spread between his recommendation of 14.75 percent and the 12 percent yield on long-term Government of Canada bonds as of the end of 1983 was 2.75 percent as opposed to the 4 to 5 percent premium he noted had existed historically. In this regard, TQM's expert witness stated that it was his view that the "lock-in" premium incorporated in the current level of interest rates to compensate for the possibility that the actual rates of inflation in future periods will exceed those currently being forecast for those periods is no more than 1.25 percent. During cross-examination, CPA/IPAC's witness, while accepting the 1.25 percent as a plausible estimate for the "lock-in" premium, expressed the belief that this premium is closer to 2.0 percent, based on his examination of studies done in this area.

In his application of the equity risk premium technique, the expert witness for the Minister of Energy for Ontario studied the historical risk premiums achieved in different classes of stock investments on the Toronto Stock Exchange (TSE) over the yields on long-term Canada bonds for the past 20 years. The witness concluded that persons investing in shares of risk comparable to that of the average stock traded on the TSE should currently require a premium of 2.0 to 2.5 percent over the 15-year Canada bond rate. Adding this premium to an October 1983 long-term Canada bond yield of 11.76 percent, the witness arrived at a cost of equity capital estimate of 13.76 to 14.26 percent for a security of average market risk. This range was then adjusted downwards to a level of 13.51 to 14.01 percent in recognition of the lower risk associated with utilities when compared to the other sub-indices of the TSE. During cross-examination, the witness stated that the long-term Canada bond yields as of mid-January 1984 were 11.97 percent, as compared to the 11.76 percent used in his analysis. The witness went on to note that this observation would tend to lead him to focus on the upper end of his final rate of return recommendation of 15 to 15.25 percent.

With respect to the comparable earnings test, the witness reviewed historical returns on book equity for both industrial and utility company samples over the periods 1973 to 1982 and 1978 to 1982. The cost of equity capital for TQM as measured by this approach was in the range of 12.75 to 13.56 percent.

In applying the DCF approach, the witness examined the recent yields and historic growth rates of a

sample of Canadian utilities. The observed yields and growth rates were in the order of 6.9 and 7.75 percent respectively. In making his final DCF estimate of 13.59 to 13.70 percent, the witness adjusted the observed growth rates downward by one percent to reflect his view that investor growth rate expectations should fall with declining inflation rates.

Giving greatest weight to the results of his risk premium analysis, the witness concluded that the IRR level applicable to TQM was 13.51 to 14.01 percent. In order to provide for a market-to-book ratio of 1.1, the witness then adjusted this range to a level of 14.8 to 15.4 percent. This range was then narrowed to a level of 15.0 to 15.25 percent. In support of the 15 to 15.25 percent range put forward by their expert witness, the Minister of Energy for Ontario stated in final argument that the expert witnesses for TQM and CPA/IPAC in the current hearing recommended rates of return on equity that were 50 to 75 basis points lower than the rates of return recommended by the corresponding witnesses in TQM's 1983 toll hearing. Counsel for the Minister of Energy for Ontario further noted that if only 50 basis points were deducted from the currently allowed rate of return, the result would fall within the Ministry's recommended range of 15 to 15.25 percent.

In the Board's view, the determination of an appropriate rate of return on equity involves the use of methods which are subject to the exercise of judgment. Based upon its consideration of the evidence presented and its decision in respect of capital structure, the Board finds 15.00 percent to be a fair and reasonable rate of return on equity.

#### 4.4 Rate of Return on Rate Base

Based on all of its findings in this case, the Board has decided that a rate of return on rate base of 12.66 percent is fair and reasonable. The derivation of this rate of return is provided below:

	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt	75.0	11.875	8.91
Equity	25.0	15.00	3.75
	<b>100.0</b>		<b>12.66</b>



## Chapter 5

### Cost of Service

#### 5.1 Introduction

TQM submitted its forecasted cost of service for a test year commencing 1 January 1984 in its Application. That forecast was revised both in its Supplemental Application and Update.

Details of Board adjustments to the applied-for cost of service (excluding return) are provided in this Chapter. Return is calculated by applying the rate shown in Section 4.4 to the rate base shown in Section 3.1.

**Table 5.1**

**Authorized Cost of Service  
Test Period 1 January 1984 to 31 December 1984**

	Hearing Evidence \$(000)	Adjustments \$(000)	Authorized by NEB \$(000)
Operating and Maintenance Expenses	10,220	(832)	9,388
Depreciation and Amortization	19,827	(3,573)	16,254
Taxes other than Income Taxes	3,433	(1,187)	2,246
Income Taxes	—	—	—
Return on Construction Warehouse Inventory and Stand-by Plant	—	68	68
<b>Return on Rate Base</b>	<b>58,444</b>	<b>(3,650)</b>	<b>54,794</b>
<b>Total Cost of Service</b>	<b>\$91,924</b>	<b>\$(9,174)</b>	<b>\$82,750</b>

#### 5.2 Operating and Maintenance Expenses

TQM's operating and maintenance expenses forecast for the test year was made using a zero based budgeting process. With the exception of the items noted hereafter, the Board considers the forecast submitted to be reasonable. Accordingly, the Board approves test year operating and maintenance expenses adjusted to reflect the decisions set out below.

##### 5.2.1 Wages, Salaries and Employee Benefits

TQM's salary and wage increases for 1982 averaged 12.6 percent. For 1983 a general increase of 6 percent was given to salary and wage earners. The merit pay program was suspended for salaried workers in 1983 while in February a step progression system was introduced for wage earners.

For the test year 1984, TQM included a 5 percent general increase for salaries and wages. In addition, TQM estimated that progression increases for wage earners would be equal to 2.9 percent of wage payroll and that the merit program for salaried employees would add a further 2 percent to the salary payroll. The estimated costs of progression and merit increases included the impact of anticipated employee turnover and promotions and the fact that progression increases are given on the employee's anniversary date. The Applicant stated that these increases were applied to comply with the limits permitted under the terms of the Federal Government wage restraint program.

The Board accepts for inclusion in the test year cost of service general salary and wage increases of 5 percent for the 1984 test year. The Board notes that TQM's projected costs for the merit and progression programs did not include an estimate for unanticipated turnover. Having regard to all the evidence presented the Board is not convinced that the actual costs of the merit and progression programs would be as great as estimated by TQM. Accordingly, the Board will allow an increase of 6 percent for salaries and wages, including the allowance for merit and progression increases, to be used to determine the toll for the 1984 test year. The total impact of the reduction of the estimated costs of the merit and progression programs is a decrease of \$37,048 in operating and maintenance expenses and a decrease in average gas plant in service of \$6,000.

With regard to employee benefits, TQM stated that no changes in benefits plans were implemented in 1983 nor were any anticipated for 1984. The Board accepts TQM's estimates for the test year cost of employee benefits for inclusion in the toll.

### 5.2.2 Personnel Requirements

TQM's evidence indicated an actual level of 320.2 person-years for the base year and a forecast of 142.3 person-years for the 1984 test year. It also showed a reduction in the number of employees from 146 in January 1984 to 136 by the end of the year. During cross-examination a witness for TQM indicated that the Applicant would be downscaling further in 1985 and that it expected ultimately to have fewer than 124 employees.

On the basis of comparisons of the ratio of the number of employees per kilometre at TQM to other pipeline companies, Counsel for the Minister of Energy for Ontario questioned whether TQM has achieved an optimum level of manpower. Furthermore, she noted that even with 124 employees TQM's ratio is higher than all but one company in the sample provided by TQM.

The Board accepts the projected staffing levels for 1984 tolls in view of the fact that only 105 person-years have been allocated to operating and maintenance in 1984 and that TQM indicated it would continue downscaling beyond the end of 1984; however, the Board expects to give further consideration to the matter of appropriate staff levels in considering tolls for subsequent periods.

### 5.2.3 Forecast of Other Operating and Maintenance Expenses

The Board has reviewed and found acceptable the general inflation adjustments to other operating and maintenance expenses for the test year. In addition, the Board considers most of the estimates provided for other O&M expenses to be acceptable. However, in the Board's view, the following adjustments are necessary.

#### *Consultants*

TQM forecast costs for consultants totalling \$1,392,100 in its test year O&M expenses. It was revealed in cross-examination that this forecast did not include \$426,500 for consultants charged directly to construction orders but represented the gross estimate of consultants' costs prior to capitalization of overhead.

Gaz Métropolitain, inc. (GMI) questioned various components of the above-mentioned \$1,392,100. GMI felt that serious questions arose with respect to the reasonableness of the amounts, some of them to be paid to the partners in full or in part, and that justification and explanations were frequently lacking. In addition, GMI argued that to the figure of \$1,392,100 one must add at least the \$426,500 for consultants for 1984 charged directly to construction orders, and a further \$294,000 for consultants which TQM indicated was included under Regulatory Expenses. The total of over \$2 million of consultant fees for a pipeline which

will not have much more than \$2 million of construction activity during the test year and which is downscaling toward a goal of about 124 employees, was considered startling by GMI.

In the Board's view, TQM did not adequately justify the inclusion of \$1,392,100 in test year O&M expenses for consultants. Among other things the explanation for these expenses provided in response to questions from the Board dealing with anticipated billings from Sponsors and finance and accounting related costs in particular are considered by the Board to be incomplete. It is the Board's decision that a reasonable amount to be included for consultants in the calculation of tolls for the test year is \$700,000. Accordingly, using the ratio of capitalized O&M expenses to total O&M expenses derived from the Applicant's Exhibit B-2, O&M expenses have been reduced by \$528,765 and average gas plant in service has been reduced by \$84,000.

#### *Directors' Fees and Expenses*

The directors' fees and expenses forecast by TQM for the test year are \$263,200 which TQM advised was made up of directors' fees of about \$83,000, and "transportation, including meals, lodging and various expenses" of about \$180,000.

Having regard to the evidence presented, it is the Board's opinion that the forecast of directors' fees and expenses submitted by TQM for 1984 is an excessive amount to be included for toll purposes. The Board considers that \$120,000 is an appropriate amount to be included for directors' fees and expenses. Accordingly, using the ratio of capitalized O&M expenses to total O&M expenses derived from the Applicant's Exhibit B-2, O&M expenses have been reduced by \$109,252 and average gas plant in service has been reduced by \$18,000.

#### *Regulatory Expenses and Regulatory Contingency*

TQM had applied for and was granted authority to defer the costs of its 1984 toll hearing as discussed in section 5.2.4. However, TQM's forecast of its test year O & M expenses included the following:

CES - 36 - Regulatory Expenses	\$405,200;
CES - 37 - Regulatory Contingency	300,000.

TQM filed additional breakdowns of these estimates during the hearing showing that they refer to proceedings other than the 1984 toll hearing.

GMI argued that the amounts budgeted for regulatory expenses and regulatory contingency for the test year appear to be too high. It expected any future TQM toll hearing to be much simpler to prepare and present, thus substantially reducing the related expenses. Moreover, GMI said that the hearing under GH-2-83, for which \$40,000 was included in regulatory contingency, was completed in very large part in



1983, and that the work for the \$61,500 study for the NEB 1984 Supply and Demand Inquiry, also shown under 1984 regulatory contingency, was done in 1983. GMi also disputed the inclusion in "regulatory contingency" of the expenses relating to TQM's applications to the Federal Court, the Generic Cost Allocation and Rate Design Proceeding, and the Régie du gaz et de l'électricité du Québec hearing.

With respect to the regulatory contingency, Northern and Central recommended that the Board consider and allow only those costs specifically identified in TQM's breakdown, i.e. \$236,000 and, if approved, that this should form part of TQM's forecasted regulatory expenses and should not be set up in a separate account and treated as a separate regulatory contingency. TCPL submitted that a provision for regulatory contingencies (which this party defined as costs to be expended, other than for TQM's own toll hearing, in hearings before regulatory commissions) should be approved as part of the cost of service.

In the Board's opinion, TQM's forecast for inclusion in its tolls of regulatory expenses and regulatory contingency totalling \$705,200 is excessive. The Board considers that the costs of TQM's next toll hearing should be substantially less than those of the 1983 hearing. In addition, the Board is not satisfied with the justification provided for the regulatory contingency. Indeed, \$64,000 of this estimate was not identified but only described as related to unforeseen hearings or inquiries. With regard to the forecast costs related to the applications to the Federal Court, the Board does not consider it appropriate for those costs to be recovered from the ratepayers. The Board has decided that \$500,000 is a reasonable amount to be recorded in TQM's tolls for regulatory expenses and regulatory contingency in the test year. Accordingly, using the ratio of capitalized O&M expenses to total O&M expenses derived from the Applicant's Exhibit B-2, O&M expenses have been reduced by \$156,773 and average gas plant in service has been reduced by \$24,000.

### *Gas Control*

Recently, TQM and TransCanada have agreed to share TQM's gas control monitoring function. Under this agreement TransCanada provides the gas control function for TQM during all periods except regular working hours. The Applicant was requested to estimate the additional operating and maintenance expense savings which would accrue, if TransCanada were to provide this service on a 24 hours per day basis. TQM estimated that, subject to the approval of both parties and acceptance of the concept by customers, additional savings of \$30,000 per year could be achieved by this arrangement.

During the course of the hearing GMi questioned TQM's witnesses on this subject at length. GMi's concern was that the Applicant had underestimated the

savings which would accrue if TransCanada was contracted to do TQM's gas control function continuously. On the basis of the 1983 gas control costs, for which estimates were given by the Applicant during the hearing, GMi estimated that the avoidable gas control costs were in the neighbourhood of \$150,000. This estimate was based on salaries, overhead and cost of equipment. In addition, this intervenor suggested that there may be some safety advantages in having one company carry out the gas control function exclusively versus the present arrangement whereby this responsibility is shared.

A witness for the Applicant indicated that the gas control department actually includes the equipment and personnel necessary to perform communications, gas measurement accounting, and system planning functions in addition to the gas control functions. In argument TQM stated that it wanted to be able to always monitor operations during regular working hours. This in their opinion represented the safest and most efficient way to maintain service and the security of their system. GICQ agreed with TQM's position.

In view of the above, the Board has decided that the costs forecast by TQM in the operating and maintenance budget for gas control functions are reasonable for toll purposes.

### **5.2.4 Deferral of Toll Hearing Expenses**

On 29 July 1983, the Applicant requested that the Board approve the deferral of its current toll application expenses and that the amortization thereof be dealt with in TQM's next toll application. By letter dated 16 August 1983, the Board informed TQM that its proposed deferral of its toll case expenses was approved and that the issue of the amortization of the deferred amount would be examined in a toll hearing.

In its Application, TQM requested that the Board issue an order for accounting and rate-making purposes approving deferral of toll case expenses relating to future toll hearings and amortization of such expenses through adjustment in future tolls.

In evidence, a witness for TQM indicated that TQM was also seeking carrying charges on amounts to be included in the account and pointed out that TCPL has been deferring its toll case expenses. The same witness admitted that this type of expense was reasonably foreseeable and within the control of the Company.

Counsel for TQM argued that the principal costs of a toll proceeding are related to the duration of the hearing, which is not in the sole control of the Applicant.

TQM justified its request for carrying charges on the basis that there is a significant period of time between the incurrence of the expenses and the recovery of such expenses through the cost of service, and the Company has to finance those expenses until final recovery and the charges associated with such



financing represent an additional cost of doing business.

GICQ suggested that TQM and TCPL should be given the same treatment on this subject whereas TCPL argued that the Board should allow both the recovery of TQM's toll case expenses in a manner consistent with the principles established in TG-1-74 and TG-1-76, and carrying charges on the outstanding balance.

However, other intervenors opposed TQM's request on the grounds that regulatory expenses, as identified by TQM's witness, are reasonably foreseeable; regulatory expenses are within the control of the Company; a deferral account would decrease the incentive to keep costs down; and unforeseen hearings can be dealt with through interim orders.

As already indicated, a witness for TQM admitted, and it is the Board's opinion, that future toll hearings and expenses are reasonably foreseeable and within the control of the Company. Accordingly, the Board denies the Applicant's request for an order for accounting and rate-making purposes approving deferral of toll case expenses and amortization of such expenses for future toll applications.

With respect to the current toll proceeding expenses, TQM is to continue deferring the said expenses and to bring them forward for consideration in its next toll hearing.

### **5.2.5 Deferral of Application for Review Expenses**

On 31 January 1984, the Applicant amended paragraph 12 of its Supplemental Application by adding thereto:

"It is further requested that the Board issue an order for accounting and rate-making purposes approving the deferral of expenses incurred in relation to the Application for Review made to the National Energy Board with respect to the June 1983 Decision of the Board, to be dealt with in TQM's next tolls application".

This was presented following cross-examination by CPA/IPAC during which a witness for TQM recognized that the expenses were not included in the Applicant's forecasted cost of service and had "fallen in the crack".

The same witness, upon further questioning by CPA/IPAC, admitted that the aforementioned expenses, which he evaluated to be in the neighbourhood of \$15,000, had generally been incurred prior to August 1983, but had not yet been billed nor had they been paid by TQM. He also recognized that it was solely TQM's decision to make the Application for Review, and that TQM had an idea of what it would cost before it proceeded with the Application.

Several intervenors argued that TQM's request for a deferral account should not be granted on the

basis that such expenses were reasonably foreseeable and were within the control of TQM.

Consumers' also pointed out that in its view, the issuance of the requested deferral account would involve the Board in retrospective rate-making as the costs had nothing to do with the test year, but Counsel for TQM replied that no retroactive rate-making would result from the granting of the Applicant's request.

The Board notes that TQM did not ask the Board for a deferral account for these out of period expenses prior to undertaking its Application for Review. The Board feels, in the circumstances, that it would be inappropriate to now grant a deferral account for these expenses.

Accordingly, the Board rejects the Applicant's request for an order for accounting and rate-making purposes for the deferral of expenses incurred in relation to the Application for Review made to the Board with respect to the June 1983 decision.

### **5.3 1983 Operating and Maintenance Expense Budget Overrun**

During the period ending 30 June 1983 TQM's tolls were on a variable cost of service basis. The Board, by Order No. AO-3-TG-7-81, dated 8 February 1983, approved an Operating and Maintenance Expense Budget of \$2,000,000 for the three-month period commencing 1 April 1983 and ending 30 June 1983. TQM stated in its Supplemental Application that its actual O&M expenses from 1 April 1983 to 30 June 1983 exceeded the authorized sum of \$2,000,000 by \$523,709. TQM, therefore, requested an order to recover the overrun in its tolls plus carrying charges at the allowed rate of return on rate base for the period 1 July 1983 to 31 December 1983, or until recovery.

CPA/IPAC submitted that TQM should not be allowed to recover this overrun arguing that TQM had failed to provide adequate justification for allowing the sum to be included in its tolls.

The question of the appropriateness of TQM's O&M expenses during the above-mentioned three months was considered at the hearing by way of evidence and cross-examination. The Board is satisfied that the actual O&M costs incurred were legitimate costs and, therefore, approves collection of the \$523,709 budget overrun plus carrying charges from 30 June 1983 to 30 April 1984 at the allowed rates of return on rate base. Accordingly, TQM shall bill TCPL in May 1984 for the overrun of \$523,709 and carrying charges thereon of \$55,880.

### **5.4 Depreciation and Amortization**

TQM applied for a set of depreciation rates which, with the exception of the proposed rates for accounts 401, 402, 464 and 468, were based on a depreciation study performed by a firm of management consultants. The study included a provision for nega-



tive salvage in the derivation of the proposed depreciation rate for NEB account 465 - Mains. The issue of negative salvage, however, was withdrawn by TQM on the day that the Depreciation Panel of witnesses was sworn. The proposed depreciation rate for account 465 was revised accordingly.

Since all of the Applicant's facilities were devoted to service in 1982 or subsequent to that time, the consultants were unable to use normal statistical methods of determining average service lives and retirement patterns. It was the consultants' understanding that the TQM pipeline would no longer be useful when TCPL ceased to function. Since the consultants had performed a depreciation study for TCPL as of 31 December 1981, and in that study concluded that the estimated remaining life of the Mains was 28.5 years, an upper limit of remaining life of 28.5 years was used for TQM.

During the hearing, various intervenors questioned the depreciation study and how it was conducted. It was determined that the consultants had subsequently prepared a similar depreciation study for TCPL. That study of the TCPL system as of 31 December 1982, indicated an expected average remaining life of 31.6 years. In addition, the witness representing the consultants stated that the remaining life of TQM's system, if it was unconstrained by the remaining life of the TCPL system, would probably be 38.5 years.

It is evident from the record, that the only consideration given to gas supply was that the consultants had a gas engineer review TCPL's gas supply situation. The Applicant's conclusion was that the reserve life index was somewhat less than the remaining life assigned to the facilities through the statistical study performed on TCPL's accounts. No independent reserve analysis was performed by the consultants, and the witness responsible for the study was not certain whether the review of TCPL's gas supply was limited to proven reserves on contracted lands or might have extended to reserve additions.

A number of intervenors did not agree with the rates proposed by the Applicant, and took exception to the rate proposed for account 465 in particular. APMC argued that the physical life of TQM's plant should not be constrained by the physical life of TCPL's plant, while Ontario submitted that it is not appropriate to base the remaining life of TQM facilities on the remaining life of TCPL's mains. Since TQM's depreciation study depended upon TCPL's, Consumers' took the position that it was premature to deal with TQM's depreciation study until TCPL's study has been scrutinized in the regulatory process. GICQ, Northern and Central, and CPA/IPAC (the latter in a particularly graphic manner) argued that the depreciation study is insufficient to justify the depreciation rates applied for.

In responding to a question from the Board, the witness for the consultants confirmed that the depre-

ciation study submitted by the Applicant was conducted almost entirely on a statistical basis. Although the Board acknowledges the merits of a statistical analysis of the facilities of a pipeline as a component of an overall depreciation study, the Board considers such an approach in determining the useful life of line pipe to be of limited value due to the very low turnover in that group of assets. Furthermore, it is the Board's view, as reflected in the Gas Pipeline Uniform Accounting Regulations, that depreciation rates should be based on the service value and estimated service life of plant, as developed by a study of the company's history and experience and such engineering and other information as may be available. In determining service life, one major factor requiring consideration is the forecast of gas supply. In addition, where the depreciation study is being performed on facilities recently placed in service, the Board would expect the forecast of physical life to be based on an engineering determination of likely longevity giving consideration to the materials used and the technology employed in laying the line.

The Board is not satisfied that the depreciation study submitted has given consideration to all the factors that need to be assessed in determining depreciation rates. Accordingly, the Board considers that the Applicant has not demonstrated the appropriateness of the depreciation rates applied for. In the absence of reasons to change the existing rates which were specified by the Board in the June 1983 Reasons for Decision, the Board has decided that the rates included therein shall be continued. With regard to NEB account 464 - other Structures and Improvements, the applied-for rate of 3.50 percent is allowed.

The Board requires the Applicant to submit a further complete depreciation study on or before 30 September 1984.

The following are the amounts included in the cost of service for depreciation and amortization expenses:

	\$(000)
<b>Depreciation Expenses Related to:</b>	
<b>GPIS (excluding franchises and consents)</b>	12,522
<b>Amortization Expense Related to:</b>	
<b>GPIS (franchises and consents)</b>	588
<b>Project Costs</b>	1,740
<b>Downscaling Expenses</b>	1,404
	<b>\$16,254</b>

## 5.5 Income Taxes

In the Application, TQM calculated its provision for income taxes on a flow-through basis with no income tax provision being included in the cost of service for the test year. The Board agrees that no amount for income taxes should be included in the test year cost of service. Consequently, the following income tax issues relate to the appropriateness of the methods used and the timing differences included in the income tax calculations.

### 5.5.1 Interest Expenses

In the Application, TQM included the item "Interest Expenses" as a timing difference in the calculation of the income tax provision. This item, which represents the excess of actual over deemed interest expense, is composed of the stand-by fee, interest AFUDC and difference interest.<sup>1</sup>

The Applicant stated that, to the extent the stand-by fee and the difference interest are capitalized with the interest AFUDC, such amounts give rise to timing differences. However, the Applicant also stated that neither the stand-by fee nor the difference interest had been capitalized. Subsequently, the Applicant requested that the AFUDC rate for 1984 include the stand-by fee.

The Board considers the interest portion of AFUDC (interest AFUDC) to be the only component of the excess of actual over deemed interest expense that has the characteristics of a timing difference since it is the only amount that is capitalized. Consequently, the Board allows the interest AFUDC as a timing difference and requires the use of deemed interest expense rather than the actual interest expense in the calculation of the income tax provision.

### 5.5.2 Sponsors' Development Costs

In the June 1983 Decision, the Board included \$31,627,241 of the sponsors' development costs in TQM's rate base. It also allowed the amortization of these costs and directed that the income tax provision to be included in TQM's tolls be calculated in a manner which excludes the amortization of the development costs from that calculation as a difference between accounting and taxable income.

In January 1982, the sponsors transferred the development costs to the TQM partnership in accordance with the rollover provisions of the Income Tax Act at a tax value of \$1.00 since these costs had already been deducted for tax purposes by the sponsors. Accordingly, these development costs have a tax value of \$1.00 in the hands of the partnership.

The Applicant proposed that the sponsors' development costs be treated for toll purposes as if they were tax deductible and confirmed that these costs were included at full value in the CCA schedules. During the hearing, updated CCA schedules were provided. These schedules indicated that TQM favours the treatment of the sponsors' development costs as period costs in the calculation of income taxes for toll purposes. CPA/IPAC expressed its agreement with this treatment.

1. In Exhibit B-2, Response to Question 16.b, Schedule 16.b.1, the Applicant explains the item "Difference Interest" as follows:

"This difference is due to monthly calculations of interest performed by the model program."

The Board believes that the tax value of \$1.00 is the appropriate amount to be used in the preparation of TQM's CCA schedules for both income tax and toll purposes and that hypothetical values in respect of the sponsors' development costs should not be included therein. Accordingly, the Board has decided to exclude the sponsors' development costs from the CCA schedules and include the amount of \$31,627,241 in the losses carried forward as if these costs were deductible for toll purposes in the year 1982 when these costs were rolled over to the TQM partnership.<sup>1</sup>

### 5.5.3 Downscaling Costs

As a result of an information request, TQM amended its tax calculation by including the downscaling costs incurred in the year as a timing difference deduction in determining the taxable income. It also included the amount of amortization of these costs authorized by the Board as a timing difference addition in arriving at the taxable income.

The Board approves of TQM's treatment of the downscaling costs in the income tax calculations.

### 5.5.4 Filing Requirements

Since its inception, TQM has created tax losses by including maximum CCA in the calculations of net income (loss) for tax purposes. These losses have been available to TQM's partners to shelter from income tax their other sources of income. In the meantime, these losses have been accumulating as losses carried forward to be applied for the benefit of the ratepayers as deductions from TQM's taxable income for the purpose of establishing tolls in subsequent years. Due to the materiality of these losses carried forward, the Board recognizes the need for it to have the information necessary to confirm the appropriateness of the income tax calculations.

The Board therefore requires TQM to file with the Board by July 31 of each year the following schedules for its previous fiscal year:

- (1) The statement of net taxable income (loss) to be used by the partners in filing their income tax returns for the year;
- (2) a statement similar to (1) with the amounts allowed for toll purposes substituted for the actual expenses incurred;

1. TQM's tax losses carried forward for toll purposes as at December 31, 1983 are estimated as follows:

Total loss carried forward, December 31, 1983, Exhibit B-77, Schedule 11.(ii).3	\$48,019,000
Sponsors' Development Costs deductible in 1982 for toll purposes	31,627,241
Estimated losses carried forward, December 31, 1983	\$79,646,241



- (3) the CCA schedules supporting the CCA claimed in (1) and (2); and
- (4) a schedule reconciling the amount of losses carried forward deemed to be available at the end of the year to reduce future taxable income for toll purposes, to the balance available at the beginning of the year.

## **5.6 Taxes Other Than Income Taxes**

### **5.6.1 Corporate Capital Taxes**

In its Application, TQM requested that the allowance for capital taxes to be included in its cost of service be determined as if it were a corporation subject to the tax in the Province of Quebec. On that basis its forecast of the tax in the Updated Supplemental Application amounted to \$2.136 million. This was the same basis that TQM used to calculate the capital taxes applied for in the 1983 hearing. In the June 1983 Reasons for Decision the Board decided that the amount of capital tax which should be allowed in calculating the cost of service should be the actual amounts which the partners would pay to the Quebec Government. Accordingly, the Board authorized the inclusion of an amount in the cost of service equal to the sum of the amounts of capital tax to be paid to the Quebec Government by the partners with respect to their investment in the TQM pipeline. In response to a Board information request, TQM provided a forecast of the capital tax for the test year of \$949,000 calculated on this basis.

This issue was one of the matters included in TQM's Request for Review filed with the Board on 11 August 1983, which the Board dismissed, and in its two applications to the Federal Court. During cross-examination, a witness for the Applicant agreed that there had been no change in the Quebec Taxation Act since the last hearing and that the capital tax will still be paid by the sponsors.

A number of intervenors argued that there is no reason for the Board to change the principle it adopted on this issue in its June 1983 Reasons for Decision since no additional evidence on the matter was adduced by TQM. However, NOVA submitted that it is unjust and unreasonable not to deal with Quebec capital taxes on a stand-alone basis.

The Board considers that TQM has not presented any new evidence on this matter which would cause it to modify its decision rendered in June 1983.

Accordingly, the Board has decided that the provision for capital taxes to be included in the cost of service will be based on the sum of the amounts of capital tax to be paid to the Quebec Government by the partners with respect to their investment in the TQM pipeline. The amount approved for inclusion in the test year cost of service is \$949,000.

### **5.6.2 Municipal Taxes**

TQM applied for an allowance for municipal taxes of \$1.297 million. This forecast was derived by: increasing the 1983 actual tax bills (where available) by 6 percent; increasing the 1983 estimate by 6 percent for municipalities that had not yet sent their 1983 tax bills; and, preparing estimates for municipalities through which the pipeline did not run during the base year.

The Board finds TQM's provision for municipal taxes to be acceptable and accordingly approves the inclusion of \$1.297 million in the cost of service for the test period.

### **5.6.3 Municipal Transfer Taxes**

Certain municipalities in the Province of Quebec have assessed TQM with transfer taxes of approximately \$500,000 in respect of the pipeline facilities transferred by TransCanada to TQM on 7 January 1982. TQM is disputing the assessments, and has requested the Board's approval to defer the amount of the assessments approved by the courts and the costs associated with its appeal of these assessments.

During cross-examination, a witness for the Applicant indicated that if TQM loses its appeal, the transfer taxes should be included in rate base because those taxes would be a valid cost of constructing the pipeline.

The Board considers that a change in ownership of assets does not change the value of those assets for toll purposes. The assessment of transfer taxes on the assets transferred from TCPL to TQM is not a cost necessary to provide service to shippers, and should not increase the tolls payable for such service. Accordingly, the Board considers that neither the transfer taxes, if any, which may be payable by TQM nor the costs associated with appealing the assessments should be added to the cost of the assets for toll purposes or allowed as an operating expense. The provision of a deferral account for these taxes is therefore unnecessary, and TQM's request is denied.



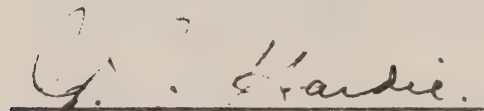


## Chapter 6

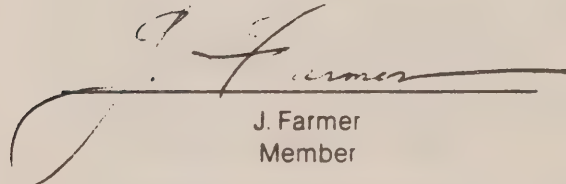
### Disposition

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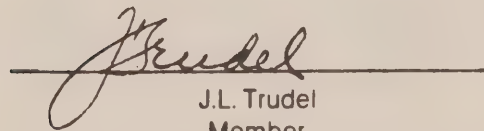
Orders No. TG-2-84, TG-3-84, and TG-4-84 which are shown as Appendices XI, XII and XIII, were predicated upon these Reasons for Decision. The foregoing chapters, together with the above Orders, constitute our Reasons for Decision and our Decision on the applications by Trans Québec & Maritimes Pipeline Inc. pursuant to Part IV of the NEB Act.



J.R. Hardie  
Presiding Member



J. Farmer  
Member



J.L. Trudel  
Member





## Appendix I

### ORDER NO. RH-4-83

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans Québec & Maritimes Pipeline Inc. (hereinafter called TQM) for certain orders respecting tolls under Sections 50, 51 and 52 of the National Energy Board Act, filed with the Board under File No. 1562-T28-3.

BEFORE the Board on Thursday, 20 October 1983.  
UPON reading the application dated 26 August 1983 filed by TQM

#### IT IS ORDERED THAT:

1. The application will be heard by the Board at a public hearing commencing at 9:30 a.m. on Wednesday, 11 January 1984 in the Hearing Room, Trebla Building, 473 Albert Street, Ottawa, Ontario.
2. The proceedings will be conducted in either official language and simultaneous interpretation will be provided should any party to the proceedings request such service in his intervention.
3. TQM shall arrange to have the Notice of Hearing, as set forth in the Notice attached hereto (Appendix I), published by 3 November 1983, or as soon thereafter as possible, in one issue of "The Herald" in Calgary and "The Journal" in Edmonton, Alberta; "The Winnipeg Free Press" in Winnipeg, Manitoba; "The Globe and Mail", "Toronto Star", and "The Financial Post" in Toronto, "The Citizen" and "Le Droit" in Ottawa, Ontario; "The Gazette", "Le Devoir", and "La Presse" in Montreal and "Le Soleil" and "Journal de Québec" in Quebec City, Quebec; "The Gleaner" in Fredericton, New Brunswick; "The Chronicle Herald" in Halifax, Nova Scotia; and as soon as possible in the Canada Gazette.
4. TQM shall, as soon as possible, serve a copy of the application and of this Order on the Attorneys General of the Provinces of Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, and Nova Scotia, the Canadian Gas Association, the Canadian Petroleum Association, and the Independent Petroleum Association of Canada, at the addresses listed in Appendix II and on those parties who have intervened pursuant to paragraph 5.
5. Any person intending to intervene in the said Hearing shall file with the Secretary of the Board, on or before 25 November 1983, thirty (30) copies of a written intervention, in either of the two official languages, containing his submission. This submission
  - (a) shall contain a concise statement of the facts from which the nature of the intervenor's interest in the proceedings may be determined;
  - (b) shall be endorsed with the name and address of the intervenor or his solicitor to whom communications may be sent; and
  - (c) shall state the official language in which the intervenor wishes to be heard.
6. Any intervenor shall serve forthwith three (3) copies of his intervention and supporting material upon TQM and one (1) copy upon each other party who has intervened pursuant to paragraph 5. A list of the intervenors will be distributed by the Board to all interested parties.
7. Any party who files a written intervention after 25 November 1983 must file and serve a notice of motion requesting leave to submit a late intervention. Such notice must be filed and served in accordance with paragraph 13.
8. TQM shall prepare its direct evidence in written question and answer form with lines numbered for each of its witnesses and shall, on or before 9 December 1983,
  - (a) file thirty (30) copies with the Secretary of the Board, and
  - (b) serve one (1) copy upon all parties who have intervened pursuant to paragraph 5.

9. Any party who has intervened pursuant to paragraph 5 and who wishes to present direct evidence in the Hearing, shall prepare written direct evidence, and shall, on or before 20 December,
  - (a) file thirty (30) copies with the Secretary of the Board, and
  - (b) serve three (3) copies upon TQM and one (1) copy upon each other party who has intervened pursuant to paragraph 5.
10. The Applicant or any intervenor who files the written direct evidence of any of its witnesses after the relevant dates specified in paragraphs 8 and 9, must file and serve a notice of motion requesting leave to submit late written direct evidence. Such notice shall be filed and served in accordance with paragraph 13.
11. Where TQM or any party who has intervened pursuant to paragraph 5 wishes to obtain additional information from another party to these proceedings, in respect of matters raised in filings made with the Board, such requests shall be made in writing, and the party to whom the request is made, shall, as soon as possible, either provide a written response to the request, with a copy to the Secretary of the Board, or refer the question to the Board under paragraph 13. Both the written requests and the responses thereto shall be filed as exhibits at the Hearing by the party answering the request.
12. TQM and any party who has filed a written intervention in accordance with paragraph 5 and written direct evidence in accordance with paragraphs 8 and 9 shall file two (2) copies of proof of service thereof with the Secretary of the Board at least five (5) days prior to the commencement of the Hearing.
13. If any question arises upon which a decision of the Board may be required, ten (10) copies of a notice of motion with respect thereto shall be filed with the Secretary of the Board and one (1) copy served upon each party, and the motion shall be heard by the Board in accordance with the procedure fixed by it.
14. TQM is directed to ensure that the material referred to in paragraph 16 is available at all the locations, other than the National Energy Board, set out in that paragraph.
15. The Rules and Procedures set out in Appendix III to this Order shall govern the conduct of the hearing.
16. During normal business hours any person may examine a copy of the application and all other material filed at:

Library,  
National Energy Board,  
9th Floor  
473 Albert Street  
Ottawa, Ontario  
K1A 0E5

or

3303 - 33rd Street N.W.  
Calgary, Alberta  
T2L 2A7

or

Trans Québec & Maritimes Pipeline Inc.  
870 de Maisonneuve Blvd. East  
Montreal, Quebec  
H2L 1Y6

DATED at Ottawa, Ontario, Thursday, 20 October 1983.

NATIONAL ENERGY BOARD

G. Yorke Slader,  
Secretary.

#### **APPENDIX I TO ORDER NO. RH-4-83**

#### **NATIONAL ENERGY BOARD NOTICE OF PUBLIC HEARING TQM TOLLS APPLICATION**

The National Energy Board will conduct a hearing of an application dated 26 August 1983 by Trans Québec & Maritimes Pipeline Inc. for orders under Part IV of the National Energy Board Act fixing the just and reasonable tolls to be charged by the Company for the transmission of natural gas.

The hearing will commence at 9:30 a.m. on Wednesday, 11 January 1984, in the Hearing Room, Trebla Building, 473 Albert Street, Ottawa, Ontario.

The hearing will be public and will be held to obtain the evidence and relevant views of interested parties, groups, organizations and companies on the application.

Any person intending to intervene must file his intervention with the Secretary of the Board by 25 November 1983. Such persons should write or telex the Secretary of the Board, as soon as possible, requesting a copy of Order RH-4-83 (available in English or French) which sets out the procedure for intervening and the locations at which copies of the application may be examined.



For further information, telephone the Board's Information Services at (613) 593-6936.

Dated at Ottawa, Ontario, 20 October 1983.

G. Yorke Slader,  
Secretary,  
National Energy Board,  
473 Albert Street,  
Ottawa, Ontario.  
K1A 0E5

Telex No.: 053 3791

## **APPENDIX II TO ORDER NO. RH-4-83**

Mr. Geoffrey Ho  
Barrister and Solicitor  
Legal Services  
Alberta Energy and Natural Resources  
Petroleum Plaza - South Tower  
9915 - 108 Street  
Edmonton, Alberta  
T5K 2C9

Attorney General for the  
Province of Saskatchewan  
Legislative Buildings  
Regina, Saskatchewan  
S4S 0B3

Attorney General for the  
Province of Manitoba,  
104 Legislative Buildings  
Winnipeg, Manitoba  
R3C 0V8

Attorney General of the  
Province of Ontario  
18 King Street East  
Parliament Buildings  
Toronto, Ontario  
M5C 1C5

and

Mr. John M. Johnson  
Director  
Legal Services  
Ministry of Energy  
56 Wellesley Street West  
12th Floor  
Toronto, Ontario  
M7A 2B7

Procureur Général de la  
Province de Québec  
Edifice Delta  
1200 route de l'église  
Ste-Foy, Québec  
G1R 4X7

and

Me Jean Giroux, avocat,  
Service juridique du Ministère  
de l'énergie et des ressources  
200B, chemin Ste-Foy  
Quebec City, Quebec  
G1R 4X7

Attorney General for the  
Province of New Brunswick  
Legislative Buildings  
Fredericton, New Brunswick  
E3B 5H1

Attorney General for the  
Province of Nova Scotia  
Provincial Bldg.  
Halifax, Nova Scotia  
B3J 2L6

Mr. D.E. Alderson  
President  
Canadian Gas Association  
55 Scarsdale Road  
Don Mills, Ontario  
M5B 2R3

The Secretary  
Canadian Petroleum Association  
1500 - 633 - Sixth Avenue S.W.  
Calgary, Alberta  
T2P 2Y5

Manager, Regulatory Affairs  
Independent Petroleum Association  
of Canada  
700; 707 - 7th Avenue S.W.  
Calgary, Alberta  
T2P 0Z7

## **APPENDIX III TO ORDER NO. RH-4-83**

### **RULES AND PROCEDURES**

1. In these Rules, "Party" means Trans Québec & Maritimes Pipeline Inc. and any intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 5 of Order No. RH-4-83.
2. At the Hearing the evidence will be heard in the following order:
  - (1) Rate Base;
  - (2) Cost of Service excluding Income Taxes and Return;
  - (3) Income Taxes;
  - (4) Rate of Return; and
  - (5) Tariff Matters

3. The Board shall hear all of the evidence on each of the items referred to in paragraph 2 of these Rules, item by item, and for that purpose the Board will hear first all of the evidence of the Applicant on all of the items and then will hear all of the evidence of each intervenor in turn.
4. Upon the completion of the evidence on all items referred to in paragraph 2 of these Rules, the Board shall hear the oral argument of all parties.
5. The order of appearances of parties and sequence of adducing evidence and conducting cross-examination will be announced by the Board on or before the opening of the Hearing.



## Appendix II

### ORDER NO. TG-7-81

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF the filing by Trans Québec & Maritimes Pipeline Inc. of a certain tariff with the Board pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1562-T28-2.

BEFORE the Board on Thursday, the 10th day of December, 1981.

UPON Trans Québec & Maritimes Pipeline Inc. (hereinafter referred to as "the Company") having filed with the Board, pursuant to Part IV of the National Energy Board Act, a tariff, which tariff by its terms is to be effective as of the 1st day of December, 1981, or at such other date of commencement of service for the facilities authorized by Certificate No. GC-64;

AND UPON the Company having filed supporting information in a submission dated the 18th day of November, 1981;

AND UPON the Company, in conjunction with filing the said tariff, having sought an order or orders under Part IV of the National Energy Board Act by application dated the 18th day of November, 1981;

AND UPON it appearing that the Board will be unable to conclude the public hearing of the said application before the date of commencement of service for the facilities to Boisbriand, in the Province of Quebec, authorized by Certificate No. GC-64;

AND UPON the Board, after considering the Company's tariff and all supporting information filed by the Company, having found that it is not satisfied that the tolls determined in accordance with the said tariff are just and reasonable;

AND UPON the Board having determined that it is desirable to ensure that the Company may commence to charge tolls pending the said public hearing; and upon the Board in reaching that determination having found that:

- (a) no amount of amortization expense should be authorized pending a public hearing;
- (b) the Company is not expected to incur any income taxes payable during the period prior

to the conclusion of the above-mentioned public hearing and no provision for income taxes should be made in the cost of service pending a public hearing;

- (c) the amount of 75% of \$7,819,000 for the twelve months ending 30 November 1982 proposed by the Company as operating and maintenance expenses, being \$5,864,250, is just and reasonable pending a public hearing;
- (d) a return on equity of 15.75% is just and reasonable pending a public hearing;
- (e) a debt/equity ratio of 75/25 is appropriate;
- (f) the monthly interest expense should reflect the actual cost of debt to the Company, except that for funds advanced to the Company by TransCanada PipeLines Limited and NOVA, AN ALBERTA CORPORATION, the monthly interest expense should be calculated using the lesser of the actual cost of the funds so advanced and the month end Royal Bank of Canada prime rate;
- (g) no provision should be made for developmental costs in the rate base or cost of service pending a public hearing; and
- (h) certain depreciation rates are not appropriate.

#### IT IS ORDERED THAT:

1. (a) Rate Schedule T-1, Firm Service, Paragraph 6.3 is disallowed and the following substituted in lieu thereof:

"6.3 If the expenses covered under subsection 7.3 herein of the Company's actual Cost of Service over the total Billing period are greater than the budgets approved by the NEB in Schedule A attached hereto for the same expenses and for the same total Billing period, an amount equal to the excess will be deferred into an account until approval has been received from the NEB."

- (b) Rate Schedule T-1, Firm Service, Paragraph 7.4 is disallowed and the following substituted in lieu thereof:

"7.4 Depreciation Expense

An amount equal to one-twelfth of the sum of the products obtained by multiplying the aggregate actual original cost of all items included in each class of depreciable Gas Plant in Service (column 1), as at the beginning of a Billing Month, by the applicable Annual Straight-Line Rate (column 3). As depicted by the rate applicable to 'all other gas plant in service' shown in column 3, it is the intent during the first three years of service to reduce annual depreciation charges applicable to this class of plant. Developmental costs shall be excluded from the original cost of Gas Plant in Service for the purpose of calculating depreciation expense."

- (c) Depreciation rates for franchises and consents, office furniture and equipment, tools and work equipment, transportation equipment, and heavy work equipment, as provided in Rate Schedule T-1, Firm Service, Depreciation Rate Table are disallowed and the following substituted in lieu thereof:

Franchises and Consents	2.75%
Office furniture and equipment	7 %
Tools and work equipment	7 %
Transportation equipment	20 %
Heavy work equipment	10 %

- (d) Rate Schedule T-1, Firm Service, Paragraph 7.5, Amortization Expense, is disallowed;
- (e) Rate Schedule T-1, Firm Service, Paragraph 7.7 Income Taxes, is disallowed;
- (f) Rate Schedule T-1, Firm Service, Paragraph 7.8.1 is disallowed and the following substituted in lieu thereof:

"The monthly interest expense incurred by the Company on the 75% component of the Company's rate base financed by debt. Such expense shall be calculated using the actual cost of debt to the Company, except that, for funds advanced to the Company by Trans-Canada PipeLines Limited and NOVA, AN ALBERTA CORPORATION, the lesser of the actual cost of the funds to those companies and the month end Royal Bank of Canada prime rate shall be used.

- (g) Rate Schedule T-1, Firm Service, Paragraph 7.8.2 is disallowed and the following substituted in lieu thereof:

"The monthly return on common equity is equal to 1/12 of 15.75% applied to the 25% common equity component of the Company's rate base. This component is obtained by subtracting from the rate base for the Billing month computed pursuant to subsection 7.8.3 herein, the component of the rate base financed by debt."

- (h) Rate Schedule T-1, Firm Service, Paragraph 7.8.3

- (a) is disallowed and the following substituted in lieu thereof:

"(a) The sum of the balance of actual original investment in gas plant in service including, but not limited to, such balances as recorded in Account Nos. 401 through 498, gas plant leased to others (Account No. 101), preliminary survey and investigation charges (Account No. 172), public improvements related to gas operations (Account No. 176); organization expense (Account No. 178) and other deferred debits related to gas operations (Account 179), except those dealt with differently as approved by the Board, less the sum of balances of: accumulated depreciation (Account No. 105), contributions in aid of construction (Account No. 211), accumulated deferred income taxes (Account No. 276) and other deferred credits related to gas operation (Account No. 279), less developmental costs."

AND IT IS FURTHER ORDERED THAT:

2. Schedule A hereto shall be annexed to and form Schedule A to the Company's tariff.
3. The Company shall forthwith file with the Board a tariff conforming to paragraphs 1 and 2 hereof.
4. Notwithstanding the filing of the said new tariff in conformity with paragraph 2 hereof, the same shall remain suspended and be of no effect until the date of commencement by the Company of service to Boisbriand, in the Province of Quebec, over the facilities authorized by Certificate No. GC-64, provided that the Company shall have filed all applicable Service Agreements for the transportation of gas to Boisbriand.

NATIONAL ENERGY BOARD

G. Yorke Slader  
Secretary



## **SCHEDULE A**

APPROVED BUDGET FOR TRANS QUEBEC & MARITIMES PIPELINE INC. FOR THE TWELVE MONTHS COMMENCING 1 DECEMBER 1981 AND ENDING 30 NOVEMBER 1982.

1. The budget for operating and maintenance expenses is \$5,864,250.





## Appendix III

### ORDER NO. AO-1-TG-7-81

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF the filing by Trans Québec & Maritimes Pipeline Inc. of a certain tariff with the Board pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1562-T28-2.

BEFORE the Board on Monday, the 13th day of September 1982.

UPON Trans Québec & Maritimes Pipeline Inc. (hereinafter referred to as "the Company") having filed with the Board, pursuant to Part IV of the National Energy Board Act, a tariff, which tariff by its terms is to be effective as of the 1st day of December, 1981, or at such other date of commencement of service for the facilities authorized by Certificate No. GC-64;

AND UPON the Company, in conjunction with filing the said tariff, having sought an order or orders under Part IV of the National Energy Board Act by application dated the 18th day of November 1981;

AND UPON it having appeared that the Board would be unable to conclude the public hearing of the said application before the date of commencement of service for the facilities to Boisbriand, in the Province of Quebec, authorized by Certificate No. GC-64;

AND UPON the Board, having determined that it is desirable to ensure that the Company may commence to charge tolls pending the said public hearing;

AND UPON the Board having issued, on Thursday, the 10th day of December, 1981, Order No. TG-7-81;

AND UPON the Proclamation on 23 July 1982 of certain amendments to the National Energy Board Act which, inter alia, govern the authorization of interim tolls;

AND UPON the Company having filed with the Board an application dated the 7th day of September 1982 for the "necessary action which will reflect that Order TG-7-81 was and is an interim order with the consequent entitlements thereunder from Section 52.2 of the present NEB Act";

AND UPON the Board being of the opinion that Order No. TG-7-81 is not an interim order;

AND UPON the Board having determined that Order No. TG-7-81 should be made an interim order effective the 1st day of October 1982.

IT IS ORDERED THAT Order No. TG-7-81 be and the same is hereby amended by adding thereto immediately following paragraph 4 thereof the following paragraph:

"5. The said tariff, filed in conformity with paragraph 2 thereof, shall be an interim tariff and shall remain in effect only until such time as the Board issues its final order with respect to the application herein by the Company under Part IV of the National Energy Board Act."

AND IT IS FURTHER ORDERED THAT this amending order shall come into force on the 1st day of October 1982.

NATIONAL ENERGY BOARD

G. Yorke Slader  
Secretary





## Appendix IV

### ORDER NO. AO-2-TG-7-81

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF a submission by Trans Québec & Maritimes Pipeline Inc. respecting its Operating and Maintenance Expense Budget, filed with the Board under File No. 1562-T28-2.

BEFORE the Board on Monday, the 13th day of September 1982.

UPON the Board having by Order No. TG-7-81 prescribed the tolls Trans Québec & Maritimes Pipeline Inc. (hereinafter referred to as "Company") may charge in respect of natural gas transmitted by it through its pipeline and sold by it in each month during the term of the said order;

AND UPON the Company having, by a submission dated the 31st day of August 1982, submitted its forecast of Operating and Maintenance Expenses for the period commencing on the 1st day of December 1982 and ending on the 31st day of March 1983;

AND UPON the Board considering it desirable, so as to ensure that the Company may continue to charge the tolls authorized by Order No. TG-7-81 during the period commencing on the 1st day of December 1982, to approve an Operating and Maintenance Expense Budget for the period ending on the 31st day of March 1983;

IT IS ORDERED THAT:

1. Order No. TG-7-81 be and the same is hereby changed, altered and varied

- (a) by adding thereto immediately following paragraph 2 thereof the following paragraph:

"2.1 Schedule B hereto shall be annexed to and form Schedule B to the Company's tariff."

- (b) by adding thereto the attached Schedule B.

AND IT IS FURTHER ORDERED THAT:

2. The Company shall forthwith file with the Board revisions to its tariff conforming to paragraph 1 hereof.
3. This amending order shall come into force on the 1st day of October 1982.

NATIONAL ENERGY BOARD

G. Yorke Slader  
Secretary

### APPENDIX B

APPROVED BUDGET FOR TRANS QUEBEC & MARITIMES PIPELINE INC. FOR THE FOUR MONTHS COMMENCING 1 DECEMBER 1982 AND ENDING 31 MARCH 1983.

1. The budget for operating and maintenance expenses is \$4,000,000.





## Appendix V

### ORDER NO. AO-3-TG-7-81

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF a submission by Trans Québec & Maritimes Pipeline Inc. respecting its Operating and Maintenance Expense Budget, filed with the Board under File No. 1562-T28-2.

BEFORE the Board on Tuesday, the 8th day of February 1983.

UPON the Board having by Order No. TG-7-81 prescribed the tolls Trans Québec & Maritimes Pipeline Inc. (hereinafter referred to as "Company") may charge in respect of natural gas transmitted by it through its pipeline and sold by it in each month during the term of the said order;

AND UPON the Company having, by a submission dated the 14th day of January 1983, submitted its forecast of Operating and Maintenance Expenses for the period commencing on the 1st day of April 1983 and ending on the 30th day of June 1983;

AND UPON the Board considering it desirable, so as to ensure that the Company may continue to charge the tolls authorized by Order No. TG-7-81 during the period commencing on the 1st day of April 1983, to approve an Operating and Maintenance Expense Budget for the period ending on the 30th day of June 1983;

IT IS ORDERED THAT:

1. Order No. TG-7-81 be and the same is hereby changed, altered and varied

- (a) by adding thereto immediately following paragraph 2.1 thereof, the following paragraph:

"2.2 Schedule C hereto shall be annexed to and form Schedule C to the Company's tariff."

- (b) by adding thereto the attached Schedule C.
- AND IT IS FURTHER ORDERED THAT:

2. The Company shall forthwith file with the Board revisions to its tariff conforming to paragraph 1 hereof.

NATIONAL ENERGY BOARD

G. Yorke Slader  
Secretary

### SCHEDULE C

APPROVED BUDGET FOR TRANS QUEBEC & MARITIMES PIPELINE INC. FOR THE THREE MONTHS COMMENCING 1 APRIL 1983 AND ENDING 30 JUNE 1983.

1. The budget for operating and maintenance expenses is \$2,000,000.





## Appendix VI

### ORDER NO. TG1-4-83

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans Québec & Maritimes Pipeline Inc. for certain orders respecting tolls specified in a tariff pursuant to Part IV of the Act, filed with the Board under File No. 1562-T28-3.

BEFORE the Board on Tuesday, the 15th day of November, 1983.

WHEREAS an application dated 26 August 1983 has been made by Trans Québec and Maritimes Pipeline Inc. (hereinafter called "TQM") for approval by the Board of tolls that TQM may charge for the transmission of natural gas through its transmission system effective 1 January 1984;

AND WHEREAS the Board by Order No. RH-4-83 has set the said application down for public hearing commencing 11 January 1984;

AND WHEREAS TQM by letter dated 27 October 1983 has requested, in consideration of the fact that the Board will not be able to dispose of the said application before 1 January 1984, an interim toll in the amount of \$7.9 million per month to commence 1 January 1984;

AND WHEREAS the Board considers it desirable to establish tolls on an interim basis commencing 1 January 1984 at the same rate as those approved by Order No. TG-2-83, that is \$6.297 million per month, pending its disposition of the said application; IT IS ORDERED THAT:

1. The toll established by and the tariff filed in accordance with paragraphs 1 and 2, respectively, of Order No. TG-2-83 shall be an interim toll and an interim tariff.
2. This interim order shall come into force on 1 January 1984 and remain in effect only until the Board issues its final order with respect to TQM's application dated 26 August 1983.

Dated at the City of Ottawa, in the Province of Ontario, this 15th day of November 1983.

NATIONAL ENERGY BOARD

G. Yorke Slader  
Secretary





Trans Québec & Maritimes Pipeline Inc.  
Approved Average Rate Base For The Test Period  
1 January 1984 to 31 December 1984  
(\$000)

	1 January	31 January	29 February	31 March	30 April	31 May	30 June	31 July	31 August	30 September	31 October	30 November	31 December	Average
<u>Plant</u>														
Gas Plant in Service	\$453,563	\$457,579	\$458,085	\$458,822	\$459,524	\$460,113	\$460,398	\$460,736	\$460,816	\$461,209	\$461,377	\$461,840	\$462,142	\$459,708
Accumulated Depreciation Gas Plant	(9,445)	(10,654)	(11,884)	(13,116)	(14,352)	(15,592)	(16,833)	(18,075)	(19,319)	(20,562)	(21,806)	(23,050)	(24,295)	(16,843)
Net Gas Plant	444,118	446,925	446,201	445,706	445,172	444,521	443,565	442,661	441,497	440,647	439,571	438,790	437,847	442,865
<u>Working Capital</u>														
Cash	781	782	782	782	782	782	782	782	782	782	782	782	782	782
Plant Materials	315	317	319	321	323	363	365	365	365	365	365	365	365	347
Line Pack Gas	541	541	541	541	541	541	541	541	541	541	541	541	541	541
Prepayments	408	709	662	561	574	475	699	686	584	482	383	286	185	515
Downscaling	2,989	3,049	3,008	2,967	2,946	2,935	2,894	2,873	2,832	2,811	2,770	2,729	2,688	2,884
	\$ 5,034	\$ 5,398	\$ 5,312	\$ 5,172	\$ 5,166	\$ 5,096	\$ 5,281	\$ 5,247	\$ 5,104	\$ 4,981	\$ 4,841	\$ 4,703	\$ 4,561	\$ 5,069
<u>Other Rate Base Items</u>														
Tax Benefit on Sponsors' Development Costs	(15,337)	(15,301)	(15,265)	(15,229)	(15,193)	(15,157)	(15,121)	(15,085)	(15,049)	(15,013)	(14,977)	(14,941)	(14,905)	(15,111)
	\$ (15,337)	\$ (15,301)	\$ (15,265)	\$ (15,229)	\$ (15,193)	\$ (15,157)	\$ (15,121)	\$ (15,085)	\$ (15,049)	\$ (15,013)	\$ (14,977)	\$ (14,941)	\$ (14,905)	\$ (15,111)
Rate Base	\$433,815	\$437,022	\$436,248	\$435,649	\$435,145	\$434,460	\$433,775	\$432,873	\$431,552	\$430,615	\$429,435	\$428,552	\$427,503	\$431,813





Trans Québec & Maritimes Pipeline Inc.  
Approved Average Gas Plant in Service for the Test Period  
1 January 1984 to 31 December 1984  
(\$'000)

NEB Account Number	1 January	31 January	29 February	31 March	30 April	31 May	30 June	31 July	31 August	30 September	31 October	30 November	31 December	Average GPIS
401 Franchises & Consents	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295
460 Land	1,365	1,558	1,558	1,558	1,558	1,558	1,558	1,555	1,557	1,557	1,557	1,557	1,565	1,543
461 Land Rights	18,444	19,838	20,191	20,462	20,733	21,004	21,136	21,326	21,506	21,683	21,850	21,984	22,105	20,943
463 Measuring & Regulating	4,322	4,981	4,981	4,982	4,983	4,983	5,025	5,015	4,967	4,967	4,967	5,002	5,021	4,938
464 Other Structures & Improvements	-	-	-	199	199	199	199	199	199	199	199	385	385	182
465 Mains	389,121	390,565	390,691	390,814	390,939	391,244	391,247	391,327	391,347	391,563	391,553	391,543	391,580	391,041
467 Measuring Equipment	7,132	7,412	7,414	7,416	7,410	7,410	7,411	7,465	7,391	7,391	7,391	7,496	7,613	7,412
468 Communication Structures	-	-	-	130	130	130	130	130	130	130	130	130	130	100
482 Structures & Improvements	2,529	2,529	2,535	2,541	2,547	2,547	2,567	2,567	2,567	2,567	2,567	2,567	2,567	2,554
483 Office Furniture & Equipment	2,416	2,449	2,449	2,449	2,449	2,449	2,449	2,449	2,449	2,449	2,460	2,460	2,460	2,449
484 Transportation Equipment	701	701	714	714	922	922	922	949	949	949	949	962	962	870
485 Heavy Work Equipment	785	785	785	785	850	850	937	937	937	937	937	937	937	877
486 Tools & Work Equipment	760	772	778	783	815	828	828	828	828	828	828	828	828	810
488 Communication Structures	11	11	11	11	11	11	11	11	11	11	11	11	11	11
489 Other Equipment	483	483	483	483	483	483	483	483	483	483	483	483	483	483
Project Costs	5,232	5,233	5,233	5,233	5,233	5,233	5,233	5,233	5,233	5,233	5,233	5,233	5,233	5,233
Amount Disallowed for Boisbriand Sales Meter Station in June 1983 Reasons for Decision <sup>1</sup>	(1,033)	(1,033)	(1,033)	(1,033)	(1,033)	(1,033)	(1,033)	(1,033)	(1,033)	(1,033)	(1,033)	(1,033)	(1,033)	(1,033)
	\$453,563	\$457,579	\$458,085	\$458,822	\$459,524	\$460,113	\$460,398	\$460,736	\$460,816	\$461,209	\$461,377	\$461,840	\$462,142	\$459,708

1 The total cost of the Boisbriand Sales Meter Station is included in GPIS, but the NEB has disallowed \$1,033,000 of the cost for toll purposes. Accordingly, GPIS, accumulated depreciation and depreciation expense have been reduced on Appendices VIII, IX and X respectively.





Trans Québec & Maritimes Pipeline Inc.  
Approved Accumulated Depreciation and Amortization for the Test Period  
1 January 1984 to 31 December 1984  
(\$'000)

NFB Account Number	1 January	31 January	29 February	31 March	30 April	31 May	30 June	31 July	31 August	30 September	31 October	30 November	31 December	Test Year Average
<u>Accumulated Depreciation</u>														
461 Land Rights	\$ 325	\$ 367	\$ 412	\$ 458	\$ 505	\$ 553	\$ 601	\$ 649	\$ 698	\$ 747	\$ 797	\$ 847	\$ 897	\$ 604
463 Measuring & Regulating	93	106	121	136	151	166	181	196	211	225	239	253	268	180
464 Other Structures & Improvements	-	-	-	-	1	2	3	4	5	6	7	8	9	3
465 Mains	6,858	7,738	8,633	9,528	10,424	11,320	12,217	13,114	14,011	14,908	15,805	16,702	17,599	12,220
467 Measuring Equipment	152	173	195	217	239	261	283	305	327	349	371	393	415	283
468 Communication Structures	-	-	-	-	1	2	3	4	5	6	7	8	9	3
482 Structures & Improvements	487	508	529	550	571	592	613	634	655	676	697	718	739	613
483 Office Furniture & Equipment	311	325	339	353	367	381	395	409	423	437	451	465	479	395
484 Transportation Equipment	(60)	(48)	(36)	(24)	(12)	3	18	33	49	65	81	97	113	21
485 Heavy Work Equipment	115	122	129	136	143	150	157	165	173	181	189	197	205	159
486 Tools & Work Equipment	79	83	87	92	97	102	107	112	117	122	127	132	137	107
488 Communication Structures	1	1	1	1	1	1	1	1	1	1	1	1	1	1
489 Other Equipment	60	64	68	72	76	80	84	88	92	96	100	104	108	84
Amount Disallowed for Boisbriand Sales Meter Station in June 1983 Reasons for Decision	* (18)	(21)	(24)	(27)	(30)	(33)	(36)	(39)	(42)	(45)	(48)	(51)	(54)	(36)
	\$8,403	\$ 9,418	\$10,454	\$11,492	\$12,534	\$13,580	\$14,627	\$15,675	\$16,725	\$17,774	\$18,824	\$19,874	\$20,925	\$14,637
<u>Accumulated Amortization</u>														
401 Franchises & Consents	732	781	830	879	928	977	1,026	1,075	1,124	1,173	1,222	1,271	1,320	1,076
Project Costs	310	455	600	745	890	1,035	1,180	1,325	1,470	1,615	1,760	1,905	2,050	1,180
	\$9,445	\$10,654	\$11,884	\$13,116	\$14,352	\$15,592	\$16,833	\$18,075	\$19,319	\$20,562	\$21,806	\$23,050	\$24,295	\$16,813

\* See note 1, Appendix VIII.





Trans Québec & Maritimes Pipeline Inc.  
Approved Monthly Depreciation and Amortization Expense for the Test Period  
1 January 1984 to 31 December 1984  
(\$'000)

NER Account Number	January	February	March	April	May	June	July	August	September	October	November	December	Total
<b>Depreciation</b>													
461 Land Rights	\$ 42	\$ 45	\$ 46	\$ 47	\$ 48	\$ 48	\$ 48	\$ 49	\$ 49	\$ 50	\$ 50	\$ 50	572
463 Measuring & Regulating	13	15	15	15	15	15	15	15	14	14	14	15	175
464 Other Structures & Improvements	-	-	-	1	1	1	1	1	1	1	1	1	9
465 Mains	880	895	895	896	896	897	897	897	897	897	897	897	10,741
467 Measuring Equipment	21	22	22	22	22	22	22	22	22	22	22	22	263
468 Communication Structures	-	-	-	1	1	1	1	1	1	1	1	1	9
482 Structures & Improvements	21	21	21	21	21	21	21	21	21	21	21	21	252
483 Office Furniture & Equipment	14	14	14	14	14	14	14	14	14	14	14	14	168
484 Transport Equipment	12	12	12	12	15	15	15	16	16	16	16	16	173
485 Heavy Work Equipment	7	7	7	7	7	7	8	8	8	8	8	8	90
486 Tools & Work Equipment	4	4	5	5	5	5	5	5	5	5	5	5	58
488 Communication Structures	-	-	-	-	-	-	-	-	-	-	-	-	-
489 Other Equipment	4	4	4	4	4	4	4	4	4	4	4	4	48
Amount Disallowed - re Boisbriand Sales Meter Station in 1983 Reasons for Decision	* (3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(36)
	1,015	1,036	1,038	1,042	1,046	1,047	1,048	1,050	1,049	1,050	1,050	1,051	12,512
<b>Amortization</b>													
401 Franchises & Consents	49	49	49	49	49	49	49	49	49	49	49	49	588
Project Costs	145	145	145	145	145	145	145	145	145	145	145	145	1,740
Downscaling	117	117	117	117	117	117	117	117	117	117	117	117	1,404
	\$1,326	\$1,347	\$1,349	\$1,353	\$1,357	\$1,358	\$1,359	\$1,361	\$1,360	\$1,361	\$1,361	\$1,362	\$16,754

\* See note 1, Appendix VIII.



## Appendix XI

### Order No. TG-2-84

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans Québec & Maritimes Pipeline Inc. for certain orders respecting tolls and tariffs under Sections 50, 51, 52 and 52.2 of the Act, filed with the Board under file no. 1562-T28-3.

BEFORE the Board on Wednesday the 28th day of March 1984.

WHEREAS an application dated 26 August 1983, and a supplemental application dated 28 December 1983 were made by Trans Québec and Maritimes Pipeline Inc. (hereinafter called "TQM") for approval by the Board of a fixed toll tariff filed in accordance with section 51 of the Act and for orders under sections 50, 52 and 52.2 of the Act fixing the just and reasonable tolls that TQM may charge for the transmission of natural gas through its transmission system;

AND WHEREAS the Board heard the evidence and submissions of TQM and all interested parties with respect to the Part IV applications at a public hearing held pursuant to Board Order No. RH-4-83, as amended by Orders No. AO-1-RH-4-83 and AO-2-RH-4-83, which commenced on 11 January 1984;

AND WHEREAS the Board's decisions and reasons for decisions on the Part IV applications are set out in its Reasons for Decision dated March 1984, and in Orders No. TG-3-84, TG-4-84, and this Order;

AND WHEREAS TransCanada PipeLines Limited is currently the only shipper using TQM's facilities;

### IT IS ORDERED THAT:

1. TQM shall charge, in respect of its Transportation Service provided to TransCanada PipeLines Limited, a monthly toll of \$6.896 million commencing 1 May 1984;
2. TQM shall forthwith file with the Board and serve upon all parties to the hearing of this application a Gas Transportation Tariff incorporating the toll set out in paragraph 1 and in conformity with the decisions outlined in the Board's March 1984 Reasons for Decision on TQM's toll application.
3. Notwithstanding the filing of the new tariffs and tolls, the same shall remain suspended and be of no effect until 1 May 1984.
4. Those provisions of TQM's tariffs and tolls or any portions thereof that are contrary to any provisions of the National Energy Board Act, of the Board's March 1984 Reasons for Decision on TQM's toll application or to any Order of the Board, including this Order, are hereby disallowed, such disallowance to be effective on 30 April 1984.

National Energy Board

G. Yorke Slader,  
Secretary





## Appendix XII

### Order No. TG-3-84

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans Québec & Maritimes Pipeline Inc. for certain orders respecting tolls and tariffs under Sections 50, 51, 52 and 52.2 of the Act, filed with the Board under file no: 1562-T28-3.

BEFORE The Board on Wednesday the 28th day of March 1984.

WHEREAS prior to 1 July 1983, Trans Québec and Maritimes Pipeline Inc. (hereinafter referred to as "TQM") operated under a variable cost of service type tariff, pursuant to Board Order No. TG-7-81, dated 7 December 1981, as amended by Board Orders No. AO-1-TG-7-81, AO-2-TG-7-81 and AO-3-TG-7-81;

AND WHEREAS by the said Order No. AO-3-TG-7-81, dated 8 February 1983, the Board approved an Operating and Maintenance Expense Budget of \$2,000,000 for TQM for the period 1 April 1983 to 30 June 1983;

AND WHEREAS TQM's said tariff allowed TQM to defer into an account until approval has been received from the Board any overrun on its approved budget;

AND WHEREAS an application dated 26 August 1983 and a supplemental application dated 28 December 1983 were made by TQM for approval by the Board of a fixed toll tariff filed in accordance with section 51 of the Act and for orders under sections 50, 52 and 52.2 of the Act fixing the just and reasonable tolls that TQM may charge for the transmission of natural gas through its transmission system;

AND WHEREAS TQM more specifically requested that the Board issue an order authorizing TQM to recover in its tolls the amount of \$523,709, which is the amount by which TQM's operating and maintenance

expenses exceeded those approved by Order No. AO-3-TG-7-81, along with carrying charges at the allowed rate of return on rate base for the period 1 July 1983 to 31 December 1983 or until recovery;

AND WHEREAS the Board heard the evidence and submissions of TQM and all interested parties with respect to the Part IV applications at a public hearing held pursuant to Board Order No. RH-4-83, as amended by Board Orders AO-1-RH-4-83 and AO-2-RH-4-83, which commenced on 11 January 1984;

AND WHEREAS it appears to the Board that the said costs of \$523,709 were reasonably incurred by TQM as proper operating and maintenance expenses;

AND WHEREAS the Board's decisions and reasons for decisions on the Part IV applications are set out in its Reasons for Decision dated March 1984 and in Orders No. TG-2-84, TG-4-84, and in this Order;

AND WHEREAS TransCanada PipeLines Limited is currently the only shipper using TQM's facilities;  
IT IS ORDERED THAT:

In addition to the amounts provided for in Orders No. TG-2-84 and TG-4-84, TQM shall in May 1984 bill TransCanada PipeLines Limited the amount of \$579,589, being the overrun on its Operating and Maintenance Expense Budget for the period 1 April 1983 to 30 June 1983 including carrying charges.

National Energy Board

G. Yorke Slader  
Secretary





## Appendix XIII

### Order No. TG-4-84

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans Québec & Maritimes Pipeline Inc. for certain orders respecting tolls and tariffs under Sections 50, 51, 52 and 52.2 of the Act, filed with the Board under file no: 1562-T28-3.

BEFORE the Board on Wednesday the 28th day of March 1984.

WHEREAS by Order No. TG-2-83, dated 17 May 1983, the Board *inter alia* ordered Trans Québec and Maritimes Pipeline Inc. (hereinafter referred to as "TQM") to charge, in respect of its transportation service provided to TransCanada PipeLines Limited, a monthly toll of \$6.297 million commencing 1 July 1983;

AND WHEREAS, by Order No. TGI-4-83, dated 15 November 1983, the Board ordered that, effective 1 January 1984, the toll established by and the tariff filed in accordance with paragraphs 1 and 2, respectively, of Order No. TG-2-83 shall be an interim toll and an interim tariff;

AND WHEREAS an application dated 26 August 1983 and a supplemental application dated 28 December 1983 were made by TQM for approval by the Board of a fixed toll tariff filed in accordance with section 51 of the Act and for orders under sections 50, 52 and 52.2 of the Act fixing the just and reasonable tolls that TQM may charge for the transmission of natural gas through its transmission system;

AND WHEREAS TQM more particularly requested that the Board, pursuant to section 52.2 of the Act, authorize TQM to recover in its tolls the difference between the tolls charged under Interim Order No. TGI-4-83 and the tolls determined by the Board in the

proceedings held pursuant to Order No. RH-4-83, as amended;

AND WHEREAS the Board heard the evidence and submissions of TQM and all interested parties with respect to the Part IV applications at a public hearing held pursuant to Board Order No. RH-4-83, as amended by Orders No. AO-1-RH-4-83 and AO-2-RH-4-83, which commenced on 11 January 1984;

AND WHEREAS it appears to the Board to be just and reasonable that TQM should recover in its tolls the amount by which the tolls determined by the Board to be just and reasonable in the proceedings held pursuant to Order No. RH-4-83, as amended, exceed the tolls charged by TQM under Order No. TGI-4-83, together with interest on the amount so recovered;

AND WHEREAS the Board's decisions and reasons for decisions on the Part IV applications are set out in the Reasons for Decision dated March 1984 and in Orders No. TG-2-84, TG-3-84 and in this Order;

AND WHEREAS TransCanada PipeLines Limited is currently the only shipper using TQM's facilities;  
IT IS ORDERED THAT:

In addition to the amount provided for in Orders No. TG-2-84 and TG-3-84, TQM shall in May 1984 bill TransCanada PipeLines Limited the amount of \$2,433,914.

National Energy Board

G. Yorke Slader  
Secretary









